West African Financial Flows and Opportunities for People and Small Businesses

March 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by CARANA Corporation and Dr. Manuel Orozco of the Inter-American Dialogue.

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ACROYNMS

BCEAO	Banque Centrale des Etats de L'Afrique de L'Ouest or the Central Bank of West African States
CFA F	Franc of the Communauté Financière d'Afrique
ECOWAS	Economic Community of West African States
IMF	International Monetary Fund
SMEs	Small and Medium Sized Enterprises
MFI’s	Microfinance Institutions
MTO’s	Money Transfer Organizations
UEMOA	Union Economique et Monétaire Ouest Africaine or West African Economic and Monetary Union (WAEMU)
WACH	West African Clearing House
WAEMU	West African Economic and Monetary Union or Union Economique et Monétaire Ouest Africaine
WAMA	West African Monetary Agency
WAMI	West African Monetary Institute
WAMU	West African Monetary Union
WAMZ	West African Monetary Zone

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Acknowledgments

This report is the result of a request by the United States Agency for International Development's West African Regional Program (USAID/WARP) to CARANA Corporation to understand the nature, practices and challenges of intraregional cross border payments in West Africa. To that end, the author conducted fieldwork along with two principal colleagues, Ann Casanova, Vice President of the Trade Practice for CARANA Corporation, and Rachel Fedewa of the Inter-American Dialogue. The fieldwork included liaison work with four local consultants, interviews with 120 individuals, 70 migrants and traders, and work by a Ghanaian consulting company that administered a survey of West Africans in Ghana. The author and consultants are grateful for the support and assistance provided by the many institutions and individuals involved in this project. Of particular importance was the assistance provided by Brett Johnson of CARANA Corporation, Angelique Djekoundade Stringfellow, Aruodo Ukiwe, Mary Magdalene Bemile, and Raymond Faye, as well as Dr. Joseph Ankoma Dadzie, Alex Bruks and his firm Bruks and Associates.

We appreciate the logistical assistance provided by the local liaisons, as well as the time offered by the various individuals interviewed. The project included interviews with more than one hundred individuals and institutions from four West African countries, and received unconditional support from each and every one approached.

Person to Person Interviews in West Africa

Type	Ghana	Mali	Nigeria	Senegal	Other	Total
Academic	7	1	2	1		11
Bank	7	12	7	4		30
Government	2	7	6	2	1	18
MFI	4	5	1	6		16
MTO	2		1	4	4	11
US (AID/DOS)	4	2	2	1		9
SME	5	3	1			9
Business	2		3	3		8
Post office		2				2
ECOWAS/IOM			3	3		6
Grand Total	33	32	26	24	5	120

Executive Summary

USAID commissioned this study to investigate the size and scope of informal financial transactions in West Africa[1]. Intra-regional traders often complain about the barriers to doing business in the region, yet intra-regional trade is strong and an important component of national economies. Migrant labor, frequently accompanied by family members, are also crossing borders to participate in agricultural harvests and other economic activities. These temporary labor migrants are frequent users of remittance networks that enable them to transfer funds to their native communities.

A little more than 250 million people live in the 15 ECOWAS countries which has a total GDP of US$342.5billion. Intra-regional trade accounts for 11% of ECOWAS' trade with the world but this figure only reflects formal transactions. Informal trade represents a significant segment of economic activity in West Africa, but is largely undocumented.

This report assesses the practice of cross border payments, describes the challenges faced by individuals involved in this activity and records a case study of four countries: Ghana, Mali, Nigeria and Senegal.

The main findings of this study are that (1) presently, the aggregate value of these transactions may amount to US$2 billion annually in remittances from migrant laborers and perhaps as much as US$8 billion in trade settlements in the four countries. (2) Overly restrictive government policies, the inconvertibility of the currencies in the region, corruption and traditional patterns have the effect of driving potentially legitimate business into the informal economy. (3) Small and medium sized enterprises, in particular, have difficulty gaining access to formal mechanisms and institutions that could normally provide business loans and financial settlement services. Concurrently, the region is vastly under-banked. (4) Microfinance institutions and credit unions service a part of this informal market but they operate under financial regulations that make it difficult to service the full needs of their clients. The settlement of international transactions is particularly difficult. (5) The use of technology may help provide options that will encourage greater use of formal systems.

There are inherent dynamics present in the region which include: (1) neglect by government, social and commercial institutions to the reality of these practices, (2) restrictive foreign exchange policies, (3) informality and its adverse effects on accessibility to financial institutions and the consequent impact on economic development and wealth generation, (4) expensive transaction costs, and (5) an overall fragile regional integration system. The study concludes with recommendations designed to improve understanding of the issues and to implement practical applications that will enable migrant workers and traders to more efficiently transfer their money. What follows is a brief summary of the principal causes of informality.

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[1] Benin, Burkina Faso, Cape Verde, Côte d'Ivoiré, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leon, and Togo.

Trade and Migratory Corridors

Trade between Ghana, Mali, Nigeria and Senegal totals US$1.1 billion in exports and in US$1,3 billion in imports[2] and the World Bank reports that US$2.23 billion in workers' remittances and compensation of employees were received in 2003. Informal trade and labor migration is difficult to track for obvious reasons. Financial transactions carried out through formal channels such as banks are recorded. Informal channels are unregulated and unrecorded and take place through a variety of networks that include cash transactions across borders. The activity is conducted through drivers, couriers, family, friends, and "hawala" mechanisms. This activity is a very common occurrence in West Africa and is the result of a long tradition of trade and migration dating back to pre-colonial times. Civil strife and different levels of prosperity add to the movement of people in the region.

Important trade and migration corridors exist between major cities that are trade hubs such as the Accra-Lagos, and countries such as Ghana-Burkina-Faso, Ghana-Nigeria, Mali-Nigeria, Mali-Senegal, and Nigeria-Togo. Coast-to-inland corridors are especially notable routes for trade settlements and remittance senders. Goods imported from abroad are introduced to the West Africa region at the principal seaports of Abijan, Cotonou, Dakar, Lagos and Tema and are distributed inland through small, medium and large size traders. Remittance senders tend to live in urban areas where wages are higher and business opportunities are greater and send money to families in rural areas.

Currency Policy

The exportation of cash banknotes in all the ECOWAS countries is substantially restricted. Ghana only allows the exportation of the equivalent of c5,000 (US$0.54) and Nigeria only allows N1,000 (US$7.74). Ghana is in the process of modernizing its currency policy and may lift the restriction that prohibits exports of banknotes. In the WAEMU countries, the CFA F may freely circulate, (up to CFA F300,000 (US$542) without supporting documenation), but the banknotes may not be exported to other ECOWAS countries. In Ghana and Nigeria, outbound transactions through money transfer organizations (MTO's) such as Western Union or MoneyGram are completely prohibited. In WAEMU, outbound payments are allowed through money transfer companies but are limited to CFA F1,000,000 (US$1,807) per person, per day, per transaction. The principal obstacle to using formal systems is the inconvertibility of the Anglophone currencies to the Francophone currencies, which leads to multiple conversions for traders, and remittance senders.

ECOWAS has attempted various forms of payment integration with the ultimate aim of creating a common currency in all 15 countries. The early attempts failed and led to the creation of a common currency, the CFA F, in the WAEMU zone. The remaining 6 Anglophone countries, who all have unique currencies, agreed to work independently towards the adoption of the fiscal and policy requirements in order to create the West African Monetary Zone (WAMZ). They are expected to introduce a common currency, the ECO, on December 1, 2009.

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[2] *IMF Direction of Trade Statistics, 2005*

Tariffs

Despite efforts to introduce a common external tariff by 2008, traders still face high tariffs, product bans and import controls that has also played an important role in trade diversion and created an environment conducive to arbitrage and informal trade in the region. Traders take advantage of the state of imbalance between the markets. The combination of burdensome regulations and how they are administered creates opportunities for corruption and further encourages informality.

Costs, Bureaucracy and Inefficiency

A costly issue in the region both for business and to governments in terms of lost tax revenues is bribery. Some business' estimate that 10% or more of their costs are attributed to illegal payments and kickbacks. Strong informal networks within the bureaucracy provide the means, motive and opportunity for such practices.

Lack of Formal Mechanisms

West Africa is under banked and gender differences are profound, particularly when it comes to access to credit. Most bankers interviewed did not know what percentage of their customers were women. In contrast, microfinance institutions and credit unions knew figures immediately and also confirmed that the majority of their membership is composed of women. They also reported that women are a lower lending risk.

A TIPCEE Working Paper, quotes the Daily Graphic published on January 25, 2005 as stating that "the actual interest rates charged ranged between 31-36 per cent." [3] The report explains that interest rates charged by banks for loans are the result of persistently high bank operating costs and a risky lending environment. Additional work is needed to lower operating costs and technology may have a role to play in helping all financial institutions become more efficient. ATM machines are sparse, are sometimes unreliable due to telephone connectivity and power outages, and are principally located in urban areas; there are only 80 ATM machines in all of Ghana, 10 in Mali, and 352 in Nigeria. Nevertheless, in Nigeria N5billion (US$38.7 million) worth of banking business was conducted through ATMs in 2005. Some banks in Nigeria have introduced use of smart cards and electronic purse cards and Glo Mobile has introduced mobile banking.

Microfinance institutions cater to many traders and remittance senders that operate informally. In Senegal, the Central Bank estimates that there are approximately 1 million members of credit unions. In practical terms, as a microfinance specialist suggested, small and medium traders are left out in the middle of a financial industry (micro-financial or corporate) that is concerned either with those seeking micro-loans averaging US$400 a year, or corporate loans above US$15,000.

[3] Augustine Gockel and Sam Mensah, Commercial Bank Interest Rate Spread in Ghana: Determinants and Policy Implications. A TIPCEE Working Paper. February 2006.

Options to Encourage Formality

There is no silver bullet. Change will take several years and must be demand driven in order to be successful. There are many structural adjustments that will need to take place as well as increased efforts to combat corruption. There is also an important role for the private sector.

Change can be brought about by 3 principal actors over the short, medium and long term by the government, financial intermediaries and small and medium size businesses. The government should find a way to balance the need to regulate flows of capital with the need to provide a stable, predictable environment, conducive to sending and reciving remittances and to trade, while not being overly restrictive. Financial intermediaries must acknowledge the demand by this previously untapped market and develop competitive products that may be effectively and efficiently used for cross border payments. This could include smart cards, increased points of sales, and cell phone technology. The financial sector should also work to improve customer service by reducing waiting time, working to eliminate corruption and insuring deposits. The financial sector also has a role in ushering in change in the regulatory environment to develop methods that would provide greater flexibility for movement of capital in the region. Finally, small and medium sized business should work through associations and meet with financial intermediaries to get credit and other financial products. They should also encourage the introduction of new technologies such as smart cards and mobile banking.

1. West Africans in Other West African Countries

Historically, West Africa has experienced major migratory trends. Dating back to before the colonial period, the region has long been considered as a trading center for goods and services. One resilient manifestation has been commercial migration in which traders migrate across borders to participate in commercial activities.[4] This phenomenon is informed by an understanding of West Africa as an economic unit.[5] Moreover, while migration in pre-colonial and colonial times was defined by trade routes, modern intraregional migration is determined and shaped by: post colonial national boundaries the forces of the global economy (cross border migrant trade, structural adjustment, trafficking in persons), civil strife (Liberia, Côte d'Ivoiré), territorial definitions of sovereignty, regional integration (ECOWAS), and an ongoing view of West Africa as a single economic unit.

From a geographic standpoint, it is difficult to clearly define which migratory routes people have followed. There is no rule of thumb saying, for example, that French-speaking societies are more integrated amongst themselves in migratory terms. Looking at places of origin and destination may help only partially. Four major destinations in the region have been Nigeria, Ghana, Senegal and Côte d'Ivoiré. However more recently, Nigeria and Ghana experienced both inbound and outbound movement. In the 1960s, Ghana was host to Nigerians, but by the 1970s tables turned with thousands of Ghanaians looking for work in prosperous Nigeria. Currently, people move back and forth to and from both countries. People from Burkina Faso, Liberia, Mali, Niger and Togo have also been on the move to other locations within West Africa.

The view of West Africa as a geo-political unit was confirmed by many of those interviewed during this project, whether in the private or public sector, migrants or traders. People responded to the notion of "West Africans" rather than "migrants." In fact, the ECOWAS regime has tried to ensure that its rules reflect that premise. Article 27 of the ECOWAS charter speaks of common citizenship acquired by nationals of member states, which as of 1979 has allowed people from member states to move throughout the region without needing a visa and stay in another member state for up to 90 days.[6] By 1986, and again in 1992, member countries affirmed the right of member nationals to reside and work in other ECOWAS countries, with the stipulation that they needed to register. This latter move is perceived as a means to keep control of the foreign born population.

In addition to a fluid notion of migration, statistical data is largely unavailable, thus making it difficult to know with certainty how many West Africans reside in other member countries of ECOWAS. For example, Ghana's immigration office estimates that 15% of its population is West African. Similarly, it is estimated that 10% of the Nigerian population are migrants from Africa, West and Central Africa predominantly.

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[4] Adepoju, Aderanti, "*Migration in West Africa*", D*evelopment*, 2003, 46, 3 (38).
[5] Addo, N.O. *Patterns of migration in Sub-Saharan Africa*, Ghana: University of Ghana, 1974.
[6] Adepoju, Aderanti, Fostering Free Movement of Persons in West Africa: Achievements, Constraints, and Prospects for Intraregional Migration, in *International Migration* Vol. 40 (2) 2002.

a. Intraregional Trade Flows

Cross border trade settlements have been present in West Africa prior to the colonial period. There are at least three distinctive periods or phases that have characterized these activities. Prior to regional integration taking place, trade settlements in West Africa consisted predominantly of a combination of barter and foreign currency exchanges. During the seventies and eighties, there was a period of what Meagher refers to as **informal parallel trade**, which she defines as the "circuitous flow in which illegal exports generate the foreign exchange needed to engage in the illegal import of other goods. Most parallel trade involves the exchange of smuggled primary export commodities and goods imported from outside the sub-region. These products are traded to take advantage of price differences due to divergent economic policies in neighbouring countries."[7] This system, over time, was influenced by two major changes. The first change was "the delinking of many of the former British West African colonies from the Sterling Zone … while the Francophone states remained integrated into the semi-convertible Franc Zone."[8] The second change refers to the impact that structural adjustment policies have had on regional trade, particularly the establishment of "liberal import regimes and the transiting of goods to their more protectionist neighbors."[9] Specifically, the combination of protectionism among some and increased access to foreign goods among other neighbors has defined the way parallel trade operates: mostly Asian imported goods into not so protected West African countries are transported or smuggled into more protectionist countries.

In any of these periods, the typical payment system has been characterized by unrecorded cash-to-cash transactions that are explained either by the absence of private sector transfer mechanisms, government controls and regulations and/or trader efforts to cope with taxation and corruption. Although the circulation and convertibility of CFA, dollars and the Euro has stimulated intraregional trading, trade settlements continue to be cash based. In effect, all the controls manage to drive trade settlements underground.

i. Official Statistics and Nature of Payments

There is a major disconnect between official regional trade figures, and what goes on in the streets of West Africa. Government officials interviewed in all countries are convinced that levels of intraregional trade are not significant and therefore the need to facilitate trade settlements is not a priority. They also point out that those individuals or companies trading in measurable volumes are large exporters or importers with trading licenses who already use banks. While current statistics would support such a policy conclusion, ongoing empirical research shows that the accuracy of such statistics is questionable and that policy inaction is resulting in large sectors of the population being marginalized and being left to operate in an informal environment.

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[7] Meagher, Kate. *Informal Integration or Economic Subversion? Parallel Trade in West Africa.* In Lavergne, R. Ed. Regional Integration and Cooperation in West Africa: A Multidimensional Perspective. IDRC / West Africa Press, 1997.

[8] Meagher, Kate. "A Back Door to Globalisation: Structural Adjustment, Globalisation and Transborder Trade in West Africa. Review of African Political Economy v30, n95 March 2003: 57 – 75.

[9] Meagher, Kate. "Shifting the imbalance: the impact of structural adjustment on rural-urban population movements in Northern Nigeria." Journal of Asian and African Studies 32 (1-2); June 1997, pp. 81-93.

Interviews with government officials revealed a pronounced view that informal traders were engaged in activities that in the aggregate were economically insignificant and unimportant. Government officials would point to statistical references showing that intraregional trade in West Africa amounted to approximately 5% of all trade with a singular exception in the case of Senegal where such intraregional flows are greater.

However, what most observers have found, and this study has confirmed that more trading is occurring than what is reported. When looking at the various trading partnerships, official statistics are highly suspect as evidenced by the fact that when bilateral trade is examined, one country's exports do not match a corresponding partner's imports. Indeed, the United Nations Economic Commission for Africa (UNECA) has tried to shed more light on the weaknesses faced by statistical agencies in the West Africa Monetary Zone and has supported efforts aimed at modernization and strengthening of such entities.[10] The World Bank has estimated that intra-regional trade has tended to fluctuate around 10% of total trade for the region as a whole.[11]

ii. Estimating Flows

West Africa trade experts estimate that the actual volume of trade may be at least double of what is currently presented by official statistics.[12] In some countries, like Nigeria, the importance of intra-regional trade relative to global trade is most likely the highest. For example, one in ten West Africans (out of a possible minimum of 3 million) are traders who either engage in buying and selling foreign tradable goods with neighboring countries, or personally travel to other West African countries (in particular Ghana, Sierra Leone, Burkina Faso, and Mali). Each trader conducts an annual average of US$20,000 in cross border transactions, amounting to an aggregate amount of four billion dollars.[13] Traders interviewed said they would take goods (imported Asian commodities, textiles from Senegal or Togo) worth US$2,000 (500,000 Naira) to and from Nigeria at least once a month.

Senegal is also a very important business center in West Africa: 30% of its total trade is within West Africa, predominantly other French speaking countries. It is likely that informal networks are less important in Senegal than in other places. However, traders going to Senegal do rely on informal mechanisms because their home countries lack a formal and affordable payment infrastructure.

A survey of migrants in Ghana revealed that fifty percent of them were involved in some cross border trade activity, and as will be discussed in the next section, government officials estimate that 15% of the population in Ghana comes from other countries in West Africa.

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[10] See for example, http://www.uneca.org/espd/statistics/docs/fasdev_2004_e11.ppt, UN Conference Centre, Forum for Statistical Development in Africa, Addis Ababa, Ethiopia, May, 2004.

[11] World Bank, "Regional Integration Assistance Strategy for West Africa". July 11, 2001. Report No. 22520-AFR.

[12] Meagher, Kate, "Informal Integration or Economic subversion? Parallel trade in West Africa" in *Regional Integration and Co-operation in West Africa, A Multidimensional Perspective*, 1997, edited by Réal Lavergne, Africa World Press and IDRC, Ottawa; see also, "Social capital or analytical liability: social networks and African informal economies" in *Global Networks*, 2005, 5 (3).

[13] Even using a more conservative figure of 200,000 traders conducting US$10,000 cross-border transactions a year yields a minimum of US$2 billion.

Thus, at a minimum there are half a million West African migrants working in intraregional trade activities.

The four countries analyzed here illustrate the prevailing trading dynamics and payment settlement mechanisms. For example, Ghana and Mali are predominantly intraregional importers whereby Ghana buys Naira or dollars to acquire goods, and Mali uses CFA currency. However, Mali is an attractive source for its agricultural goods bought by other CFA countries that are less self-sufficient in foodstuffs but have better purchasing power. Nigeria and Senegal are examples of exporters, though they also have a share of intraregional imports.

Ghana

Intraregional trade in Ghana is relatively strong and longstanding. According to Chalfin, "the border zone of North East Ghana, a tri-juncture spanning Ghana, Togo and Burkina Faso, is characterized by the extreme mobility of persons and things on the one hand and extreme state surveillance on the other."[14] Trading activity among these countries is based on textile and agricultural goods. Two other areas of considerable trading activity involve Benin and Nigeria. Imports from Asia are channeled via Benin and redistributed among neighboring countries. The majority of these activities are predominantly settled through cash-to-cash transactions handled personally by the trader, on occasion using drivers, and rarely through an established and formalized money transfer company like Western Union. Larger companies use bank-to-bank wires, but these represent a smaller proportion of the overall trade settlements taking place.

The volumes resulting from these settlements are larger than what official statistics suggest. For example, the Ghana-Burkina Faso corridor is characterized by a strong commercial presence. Official statistics for this corridor account for just under US$13 million in exports and US$20 million in imports annually (the equivalent of nearly US$3 million a month or 2,000 trade settlements of US$1,500 each per month). Interviews with both small and large traders indicate that the official figure represents only a fragment; there are thousands of traders moving between Ghana and Burkina Faso including large companies as well as small traders and street vendors. In fact, the presence of a strong currency like the CFA, along with varying trade and commercial policies, as well as trans-border competitive advantages among countries, make this region an interesting area for trading and arbitrage.

Official figures for Ghanaian imports of West African goods are not negligible and contradict perceptions that Ghana has little trade relations with ECOWAS members: 19% of its total trade is with ECOWAS members, with Nigeria and Côte d'Ivoiré as the main partners.

These figures are consistent with evidence encountered in interviews with small and large businesses. According to small traders who belong to the United Petty Traders Association, with more than 300 members in Accra and who trade along the Ghana-Nigeria corridor, many of them travel once or twice a month, buying various imported goods such as textiles,

[14] Chalfin, Brenda. "Border Zone Trade and the Economic Boundaries of the State in North-East Ghana." *Africa* 71 (2), 2001: 202

plastics, and music recorded in Nigeria or imported from Asia. These traders carry an average of $2000 per trip and return three weeks later to Nigeria once the goods are sold, to buy more. Although all transactions are made in cash, these traders would prefer a safer way to transfer money and have not been able to identify any affordable options.

Table 1: Ghanaian International Trade (2004) ($ 000).

Trade Partner	Exports	Imports
World	2,840,600	5,214,400
Africa	**229,800**	**1,271,000**
Total ECOWAS	***154,780***	***988,650***
Benin	60,580	24,620
Burkina Faso	12,700	19,220
Côte d'Ivoiré	11,040	179,490
Nigeria	26,470	661,450
Senegal	16,250	4,980
Togo	16,170	91,920
Other ECOWAS	***11,570***	***6,970***
Cape Verde	0	0
The Gambia	1,500	360
Guinea	200	90
Liberia	140	960
Mali	20	20
Niger	9,450	5,540
Sierre Leone	260	0
Other Africa	***75,020***	***282,350***
Europe	1,386,950	1,747,000
North America	168,970	392,190
Latin America/Carib.	4,700	238,700
Asia	258,680	1,435,910
Middle East	7,900	36,400
Other (Not specified)	783,600	93,200
Total ECOWAS (%)	5.45%	18.96%
Africa *(%)*	8.09%	24.37%
Industrial countries ***(%)***	64%	69%

Source: IMF, Direction of Trade Statistics, 2005.

The merchandise bought in Nigeria is legally transported to Ghana paying import duties. Although, these activities carry a high transaction cost because of the frequent travel required of individual traders who face costs for accommodation, taxes, bribes and other incidental expenses. Nevertheless, such activities can be marginally profitable as the traders take advantage of differing tariff structures as well as local market prices among and between neighboring countries.

Payment systems are especially significant at the ports. Goods arrive at the port of Tema in Ghana and, once unloaded and inspected by custom officials, are transported over land by truck drivers going to Burkina Faso, Togo or Benin. Trading agencies and truck drivers often take care of disembarkation and transportation, which involves paying authorities the required taxes and levies, providing drivers with travel allowances and other funds for incidentals incurred during the trip, bribes included. When a formalized trading entity manages the process, the importing entity wires money to the agent through Western Union to pay for the obligations. This process is often cumbersome, not only because of the high transaction costs but because the formalized banking system is not designed to meet the needs of the small and informal trader.

Large companies that conduct more than US$10,000 a month in transactions also often settle their payments on a cash basis and through informal means because either their partners do not have a bank account or because informal foreign exchange rates obtainable on the street are frequently better than what might be obtained via the banking sector. For example, a major Ghanaian plastic container manufacturer with over US$35 million in sales a year, exports 30% of its goods and 10% goes to several West African countries.

The majority of its intraregional exports are settled through Ecobank. Importers without Ecobank accounts often have difficulties settling their purchases and must use cash to avoid delays. This delay is partly because payment through a non-Ecobank institution involves more paperwork to reconcile the transaction, thus delaying the contract. Moreover, some clients prefer to pay in cash in order to expedite their contracts and make sure their goods are delivered on time.

Overall, the financial sector in West Africa does not serve anyone settling small value transactions or businesses with limited access to banking institutions. Ecobank officials in Ghana explained that in addition to their intraregional bank transfers, they have a service for money transfers that could be accessible to anyone. However, when traders and other economic actors were queried, they responded that even with an Ecobank account, transfers were cumbersome, lengthy, and certain specific transactions were either not permitted or were unavailable.

Mali

Mali is also a country historically regarded as a trading center, and is a trade corridor between Senegal and Nigeria and other French speaking countries, including Côte d'Ivoiré. It is also a country with large exports of migrant labor. Of a total base population of 11.6 million people, an estimated 2 million Malian citizens live or work in the Ivory Coast.[15] As in Ghana, assumptions that most trade is geared towards former colonial rulers obscures the extent of intraregional trade settlements. Currently, in order to conduct trade, individuals need to acquire a trade license demonstrating: the activity in which they are involved, clients and trade partners, compliance with inspection certificates and proof that they have a bank account to settle payments or obtain lines of credit. The 2004 Trade Policy Review of Mali conducted by the World Trade Organization states that: "The availability of financial services remains one of the most significant obstacles to Mali's economic development because the offer available in the banking sector focuses on the Mali Textile Development Company (CMDT), formal industry, and import-export, neglecting the demand from SMEs and farmers. Since 1998, there has been strong expansion in microfinance in Mali, mainly through mutual funds or savings and loan cooperatives or decentralized financing schemes (SFDs), and institutions financed by NGOs or by the State. Like all banking establishments, these are subject to the common regulations of the WAEMU."[16]

Mali's foreign trade regulations stipulate that import transactions may be carried out by persons who can prove they have the status of importer or by enterprises that have signed an agreement with the State and in implementation of the latter's provisions, or by foreign enterprises under a government procurement contract, or by administrative, technological, professional, scientific or cultural institutions, or by a public authority for its operational needs.

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[15] Heritage Foundation / Wall Street Journal. 2006 Index of Economic Freedom. http://www.heritage.org/research/features/index/about.cfm

[16] World Trade Organization, Trade Policy Review of Mali, Report by the Secretariat. 24 May, 2004, WT/TPR/S/133 (paragraph 30).

Table 2: Mali trade (2004) ($ 000)		
Trade Partner	Exports	Imports
World	318,100	1,879,600
Africa Total	21,300	894,000
Total ECOWAS	5,100	356,000
Burkina Faso	3,820	6,680
Côte d'Ivoiré	70	141,310
Nigeria	610	4,960
Senegal	20	154,670
Togo	200	46,540
Other ECOWAS	380	1,840
Benin		110
Cape Verde		
The Gambia	10	70
Ghana	20	20
Guinea	30	1,440
Liberia		
Niger	320	310
Sierre Leone		
Africa (not specified)	0	446,300
Other Africa	16,200	91,700
Europe	71,640	579,790
North America	3,770	54,750
Latin America/Carib.	400	13,700
Asia	209,290	173,960
Middle East	1,200	3,600
Other (Not specified)	10,500	159,800
Total ECOWAS (%)	2%	19%
Africa (%)	7%	48%
Industrial countries (%)	90%	43%
Source: IMF. Direction of Trade Statistics, 2005.		

The exercise of commercial activities is subject to registration in the Register of Commerce or the Directory of Crafts. The required formalities may be carried out at the Enterprise Formalities Centre (CFE) within the Chamber of Commerce and Industry of Mali (CCIN). Applications are usually processed within 48 hours and the information sent to the administrative departments concerned (for example, the National Directorate for Taxation, the National Directorate for Statistics and Data Processing Department (DNSI)), and a tax identification number is issued.[17] With the exception of some occupations (for example, cattle exporters), the payment of an import-export business tax is required and the amount is determined on the basis of turnover.

Official statistics show that 2% of Mali exports are to ECOWAS members, and 19% of imports predominantly are from ECOWAS from Côte d'Ivoiré and Senegal. Government officials do not dispute these numbers, and consider that intraregional trade is negligible. However, fieldwork and research shows that there is significant trading activity going unnoticed or unregistered, involving informal cash settlements among entrepreneurs and agricultural producers. Whether small or large businesses, banks, microfinance institutions or analysts, all agreed, indicating that the trade settlement process is predominantly cash based. This is likely to be because trade is predominantly face-to-face, where the exchange of goods for cash provides certainty for both parties.

Mali has nine commercial banks. The government has stakes in some of the banks, especially to support the agricultural and housing sectors. As a result of World Bank recommendations that the government pulls out of the banking sector, two banks have been privatized and a

[17] "Guide du créateur d'entreprise au Mali" [on line]. Available at http://www.chez.com/afriquentreprendre/mali.html [20 November 2003].

third one is in the final stage of the process. Bamako also has a national branch of the WAEMU central bank (BCEAO). The five major banks in Mali are: Bank of Africa (BOA), Banque de Developpement du Mali (BDM), and Banque Internationale pour le Mali (BIM), Banque Internationale pour le Commerce et l'Industrie (BICIM) and Ecobank.[18] Large banks in Mali work predominantly for large exporters or importers. For example, BICIM executives stress that most of their clients are exporters dealing with European countries in cotton and gold settlements. The Bank of Africa on the other hand is preferred by mid sized traders. Eighty percent of the Bank of Africa's transactions are within its regional network of banks. However, these institutions acknowledge that many traders find informal networks and mechanisms more practical for conducting their transactions. Even formal importers find it difficult to demonstrate that their activities are legitimate, because often their business deals involve other businesses with formal licensing constraints.

According to TradeMali experts (USAID funded project), there is an important volume of agricultural exports to the West Africa region. The country is an attractive market for regional importers buying foodstuffs, such as mangos, potatoes and rice. The goods are paid for in cash as part of a person-to-person transaction between producer and buyer. Sometimes buyers purchase goods on credit, however the financing is generally done outside financial institutions. There are also individuals selling livestock in Côte d'Ivoiré, reportedly returning to Mali with at least 10 million CFA F (US$18,073)[19] in their pockets.

The commercial activity around intraregional trade settlements depends on an entrepreneurial class of semi-formal small businesses that buy imported goods from agents and distributors coming to Mali. The businesses may often be officially registered but use informal moneychangers to obtain foreign currency to purchase the imported goods. Officials at the microfinance institution JEMENI confirmed this finding.

Nigeria

The Nigerian economy continues to be highly protected from outside competition with tariffs above 35%, particularly on agricultural commodities.[20] Moreover, protectionism is accompanied by almost single reliance on oil and gas exports, which in 2004 totaled US$26 billion, that is, 67% of total exports.[21] Notwithstanding, West Africa represents one of its major non-oil trading partners. Out of the US$11 billion dollars in exports, US$2.7 billion are destined to Africa, of which $1.4 billion go to West African partners, in particular Côte d'Ivoiré, Ghana and Senegal. Given the significant trade restrictions that exist in Nigeria, informal trading is a widespread practice, particularly importation of agricultural goods.

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[18] US Embassy Commercial Guide for Mali. http://w3.usa.org.ml/guide.html
[19] 1 US Dollar = 553.321 CFA Franc BCEAO

[20] IMF, Direction of Trade Statistics, 2005
[21] Economist Intelligence Unit (EIU). Country Forecast: Sub-Saharan Africa – Regional Overview. August 2005.

Table 3: Nigeria trade (2004)		
Trade Partner	**Exports**	**Imports**
World	**33,692,000**	**19,152,000**
Africa	2,683,000	1,094,000
Total ECOWAS	***1,444,000***	***471,000***
Benin	20,000	16,000
Côte d'Ivoiré	476,000	14,000
Ghana	601,000	29,000
Guinea		32,000
Guinea-Bissau	0	17,000
Senegal	336,000	41,000
Togo	5,000	315,000
Other ECOWAS	***6,000***	***5,000***
Burkina Faso		2,000
Liberia		1,000
Mali	5,000	1,000
Niger	1,000	2,000
Sierra Leone		1,000
South Africa	804,000	486,000
Cameroon	414,000	1,000
Other Africa	***21,000***	***136,000***
Europe	6,132,000	7,601,000
North America	15,631,000	1,775,000
Latin America/Carib.	2,618,000	681,000
Asia	6,303,000	4,543,000
Middle East	4,000	535,000
Other (Not specified)	321,000	2,923,000
Total ECOWAS	4.29%	2.46%
Africa	7.96%	5.71%
Industrial countries	83%	73%
Source: IMF, *Direction of Trade Statistics*, 2005		

There are currently four foreign exchange markets in Nigeria: (i) the official Dutch auction system (DAS), (ii) the interbank market, (iii) the Bureau de Change market, and (iv) the parallel market. The Dutch Auction System operated by the Central Bank of Nigeria (CBN), is a sealed bid, multiple price auction. The DAS only supplies the retail end of the market, with funds purchased from the CBN to be used for eligible transactions only, and banks required to submit documentation establishing their clients' eligibility. Funds obtained in the DAS are not transferable to the wholesale interbank market. In 2003, participating banks averaged around 60 (on occasion, as many as 75 banks participated) and sales amounted to US$9.75 billion.

The Interbank Foreign Exchange Market (IFEM) exchange rate is freely negotiated among authorized dealers. Foreign exchange is obtained from sources other than the CBN, including foreign oil companies and non-oil exports. Most recent estimates put IFEM sales at US$2-3 billion in 2002. The Bureau de Change (BdC) Market is a relatively small spot market, dealing with foreign exchange obtained from the private sector only. No documentation is required for buying or selling. There are around 250 registered BdC, although less than 15 are thought to dominate the market. Sales are not reported formally, but were estimated at US$250-500 million in 2000. Individual transactions are officially limited to US$5,000, although the limit is often circumvented and there have been reports of transactions in excess of US$100,000. Parallel Market: This is an illegal, but tolerated, market used to finance undocumented imports (to avoid customs duties or import bans) and restricted capital transactions. Given its informal nature, estimates of the market's size are subject to a wide degree of uncertainty. However, banks involved in the market are thought to range between 10 and 30 (and, as a sanction, the CBN had periodically suspended banks' foreign exchange operations) and most common estimates put annual sales around US$4-6 billion, but other estimates are as high as US$7-8 billion.[22]

One imported commodity transshipped several West African countries is the automobile. Largely because of foreign currency restrictions, high import duties and bans, traders use informal networks to bring cars from Togo, Benin, and Côte d'Ivoiré. Technically, this is a smuggling activity that otherwise would be a typical import of a foreign good. According to a bank official, there are more than 2,000 transporters in Nigeria, each transporting more than 1.5 million Naira (US$11,615)[23] to settle payments. This source explained that the benefits of this activity translate to 30% in savings considering what one would have to pay to import the same goods at prevailing import duties.

Interviews with Nigerian traders going to Ghana showed that they buy their goods at wholesale warehouses, pay sales taxes on the purchase, and then ship the goods into Ghana, paying levies and duties as they cross several borders. The traders carry imported non-Nigerian merchandize ranging from textiles to music, videos, DVDs, and other electronic devices. The average amount spent purchasing merchandise at one time is US$2,000, generally done every three weeks. The traders return to Nigeria once they have sold the goods, and spend three to four days repeating the trade operation.

The head of the Manufacturers Association of Nigeria stressed that members of the association whose clients are importers or exporters deal predominantly in cash to settle transactions. Members have difficulty making bank wires to pay clients with limited cash flow. Moreover, Ecobank officials stressed that 80% of cattle brought into Nigeria is traded with cash because although this type of activity does not involve levies, the paperwork required makes the process more complicated and lengthier.

Traders interviewed at markets in Lagos were involved in different activities related to the import and sale of textiles brought from Côte d'Ivoiré, Togo or Asia.[24] Market vendors said that their suppliers were migrants who brought textiles and finished apparel made in Togo or Benin. Interviews with representatives of the National Trade & Market Leaders Council of Nigeria, an organization of 2,000 members, confirmed that many of their traders import goods and often travel to buy those goods. On the other hand, a woman trader said that she travels to Côte d'Ivoiré to purchase imported merchandise from Asia. She carries goods for other traders as well. She also buys bags, clothing, and cosmetics in Dubai – a bag bought in Dubai costs 1,000 Naira (US$7.74), which she sells for 2000 Naira (US$15.50) in Lagos. While some of these traders and vendors might have a bank account at the local credit union, WEMA, they do not obtain lines of credit to finance their activities because interest rates are too high. However, the amount of money traders take is close to US$1,000 per trip.

Another trader, perhaps in an extreme example of constant travel, says he goes to to Cotonou, Benin twice per week, or at most eight times a month to buy men's cotton wear.

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22 International Monetary Fund, "Nigeria: Selected Issues and Statistical Appendix", August 2004. IMF Country Report No. 04/242.

23 1 US Dollar = 129.147 Nigerian Naira

24 The market visited consisted of several traders' associations and more than 6,000 vendors. The majority of the vendors were selling imported goods brought from other West African countries, acquired in cash.

The clothing comes originally from Indonesia and is imported through Cotonou. He spends about 100,000 to 300,000 Naira (US$800-$2,400) per trip, depending on his cash flow and customer demand. (This means the trader brings about 200 garments – T-shirts, pants, underwear, among other items - per week into Nigeria.). In addition to the cost of purchasing the merchandise, the operating expenses include transportation (5,000 Naira or US$40) as well as food, lodging, and bribes. Like the other traders, he has a savings account at WEMA, the local credit union, but does not borrow money from the union. It is unclear whether the interest rates are higher than is economical for this trader to use, or whether the costs of interest was understood as a loss rather than a cost of doing business. [25]

Senegal

Senegal plays a greater role in intraregional trade than some of its ECOWAS counterparts, with over a third of its exports destined to its West African neighbors according to official statistics. Senegal's main West African trading partner is Côte d'Ivoiré. Meanwhile, over a tenth of all Senegal's imports come from Nigeria. Within ECOWAS, Senegal primarily exports to Mali, with which it shares a historic sociopolitical and economic relationship that underscores significant fluidity between the two countries.

Nevertheless, as with Mali and the other countries profiled here, interviews with traders in the field show that there is more trade occurring than what is officially registered. For example, roughly 2400 female traders (clients of a MFI dedicated to providing financial services to poor women) perform a range of trading activities in the informal sector, from importing dye and fabrics from Mali, textiles from Mauritania, and shoes, bags and other goods from Gambia, Guinea and Nigeria. There are several large markets in Farafeni in the Gambia, located on the trans Gambia river highway where most traders make purchases and many also sell dried fish, textiles, clothing and other goods.

One typical trader interviewed carries between 1.5 and 2 million CFA F (US$3,616.) each time she travels, which is about once a month, to cover her purchases, transportation, and incidentals including bribes. Some of the women traders interviewed who have been in business for a while reported profit margins of up to 50% and explained how they informally finance other start-up trading activities or extend credit to small entrepreneurs from their earnings.

Traders interviewed at UACOIDEFS, a traders association based in Dakar, report that the most significant obstacle to trading activity is poor road conditions and that some of the worst roads are those connecting Senegal and Mali. However, they also pointed out difficulties associated with foreign exchange, customs documentation and financing. One trader travels regularly to Côte d'Ivoiré, Ghana and Nigeria, stating that she prefers Ghana because there is more product diversity there and transportation costs – including road

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[25] This person is a typical micro entrepreneur whose regular trips illustrate some market inefficiencies embedded among small businesses but whose choices to change his modus operandi are restricted by increasing operating costs (driving his own truck, or contracting with a formal trader, for example) and decreasing already small profit margins. His weekly profit is less than US$40 a week.

transport and bribes – are not as high as in Côte d'Ivoiré or Nigeria. She explained that it usually takes her a week to travel to and from Accra and she normally takes between 3 and 4 million CFA (US$5422-US$7229) each trip.

Table 4: Senegal Trade (2004) ($ 000)		
Trade Partner	**Exports**	**Imports**
World	1,385,600	3,131,200
Africa Total	***554,300***	640,400
Total ECOWAS	***471,340***	***522,600***
Benin	42,470	8,590
Burkina Faso	38,620	50
Côte d'Ivoiré	79,970	110,090
The Gambia	54,710	20
Ghana	4,520	17,870
Guinea	37,620	960
Guinea-Bissau	31,120	0
Mali	140,600	20
Nigeria	2,290	379,980
Togo	18,720	230
Other ECOWAS	***20,700***	***4,790***
Cape Verde	2,120	10
Liberia	10,240	4,610
Níger	4,070	20
Sierre Leone	4,270	150
Other Africa	***82,960***	***117,800***
Europe	369,940	1,679,310
North America	3,600	120,510
Latin America/Caribbean	1,400	154,800
Asia	247,560	461,280
Middle East	3,500	72,800
Other (Not specified)	205,300	2,100
Total ECOWAS	34.02%	16.69%
Africa	40.00%	20.45%
Industrial countries	45%	72%
Source: IMF, *Direction of Trade Statistics*, 2005		

UNACOIS is another traders association with over 100,000 members throughout Senegal, most considered to be operating in the "informal" sector according to UNACOIS directors because they lack access to formal institutions.[26] The association categorizes members into three distinct categories: importers, the largest group with sales over 50 million CFA F (US$90,366); distributors, located throughout the country with sales up to 50 million CFA F (US$90,366.); and retailers, with sales between 500,000and 1 million CFA F (US$903-US$1,807.). Some of the traders highlighted a sometimes-problematic trading relationship with Nigeria – from where they import spare parts, textiles, cosmetics and low cost goods made in China – due to language constraints, currency exchange difficulties, and high levels of corruption (i.e. bribes). They also indicated that the situation with Gambia, is frequently similar.

The majority of these traders rely almost entirely on cash-based transactions. Formal money transfers are costly, discouraging traders from utilizing formal channels. Both UNACOIDEFS and UNACOIS have formed their own credits unions, in response to what they perceive as a dearth of financial services available to small and mid-level traders. However, as noted previously, BCEAO regulations prohibit credit unions from providing money-transfers directly. Clearly, despite the higher volume of intraregional trade in which Senegal partakes, there remains a gap between the availability and use of formal cross-border payment mechanisms for traders.

[26] The organization maintains a modest presence on the Internet at: http://www.unacois.sn/index1.asp with a home page aimed at providing various commercial tools to their members. The site is mainly in French while an English language version remains under construction.

2. The Trend from Below Towards West African Integration

Cross border payments, made either through trade or migrant remittances, are not new to West Africa. The region has historically experienced significant intraregional trade and movement of persons traveling and working across present day boundaries. Trade and migration are inextricably connected practices in West Africa with many trans-border migrants act as traders, buying and selling both domestically and internationally produced goods.

a. Sending Money Home

Contrary to general assumptions about international migration, the movement of people across borders is not simply a South-North phenomenon. Rather, it is a function of the supply and demand of regional labor markets, given asymmetries and other differences between two or more countries.[27] As regional economic blocs grow, migration also expands. Regional labor markets may be more geographically pronounced than others. For example, South East Asia, the Caribbean, and Southern Europe are all regional markets in which there is a demand for neighboring foreign labor. West Africa belongs to this type of intraregional migration group[28].

In the majority of cases, as in other regions in the world, West African migrants send remittances to their relatives. West Africans might remit smaller amounts and on a less regular basis than their counterparts in other regions. While the propensity to remit may be the same, the absolute amount varies. Here, we present the results of interviews with migrants in the region and provide an overview of the sending methods identified.

Interviews with nearly fifty migrants in Ghana, Mali, Nigeria and Senegal showed that overall; all of them send money in amounts commensurate to their earnings.[29] The majority of these migrants have lived an average of six years in the host country, but are relatively young individuals with ages ranging from twenty to forty five. They send money to their immediate relatives – predominantly parents and to a lesser extent wives.

In the four countries where interviews took place, migrants reported sending money whenever they can afford to do so, but in general remit on average three times a year. With two exceptions, where the amount sent was far greater than US$2,000, the average amount sent each time was US$157. Migrants in Mali tend to send less than $100. Most migrants visited their home country once a year. Very few of these migrants have bank accounts, and only two have ever used Western Union (one migrant in Senegal and a Burkinabe woman in Mali receiving an allowance from her sister). Those with bank accounts were either better established financially or were what Adepoju calls commercial migrants, traders who migrate back and forth to sell and buy goods in other countries. The table below offers a summary of the amounts sent by migrants.

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[27] For a review of international migration trends see *World Migration 2005*, Geneva: IOM, 2005

[28] See for example: Adama Konseiga, "*New Pattterns in Human Migration in West Africa.*" Center for Development Research, University of Bonn (Germany). 2005.

[29] Out of those 50 interviews 35 were tabulated and quantified as they contained most of the information on sending profiles.

Table 5: Remittance Sending Summary of Migrants in West Africa

Country of residence	Origin (#)	Amount sent every time (frequency)	Main Beneficiary	Cost
Ghana	Nigeria (3), Niger (4)	US$130 (3)	Parents, wife	
Mali	Nigeria, Ghana, Senegal	US$100 (3)	Parents	
Nigeria	Ghana	US$200 (4)	Parents, wife	US$21
Senegal	Mali	US$100* (2)	Sister	

n=35. * In Senegal, two out of four respondents interviewed send 4 and 1 thousand dollars each.

i. Remittances Mechanisms

The two most typical sending methods utilized are friends who travel or drivers who transport goods across different West African borders. A third method utilized was personally hand delivering the money when visiting the family. During this project, drivers taking people and goods across West Africa were interviewed. An interview with a driver based in Nigeria, who for ten years has transported people between Togo and Lagos (and sometimes to Ghana), stated that he makes two to three trips per week. This driver takes four to five people on every trip, and also carries packages to relatives of migrants.

The driver charges a passenger 3,000 Naira (US$24) to go to Togo and 4,500 Naira(US$35) to Ghana. To carry packages, such as letters, money and medicine, he charges 2,000 Naira(US$15) and charges an additional 1,000 Naira (US$8) to hand deliver the package to a more remote area. The money he spends on covering his own costs include car repairs, gas (US$60 roundtrip), and oil, as well as bribes to guards at check points demanding between 500 and 2,000 Naira ($3.8 - $15.5.) Because the Nigerian government requires everyone to carry identification, he also pays 500 to 3,000 (US$3.8 – US$23.23) Naira in bribes to the guards, to allow those he is transporting without identification to pass. In total he can earn 40,000 Nairas per trip and spends at minimum 21,000 (gas and bribes alone are 21,000). His net revenue becomes 15,000 Nairas per trip.

Another set of ten drivers was interviewed at the port of Tema in Accra. These drivers are hired by companies in other countries, such as Burkina Faso, to load merchandise and process trading paperwork required to release and transport goods. The majority, if not all, carried money on their person at one point in time. Three in ten offer to carry money on behalf of migrants. The others carry money on behalf of the transport owners, to conduct payments on paperwork. On average, these drivers carry 150,000 CFA (US$271), which they exchange in Ghana and keep some in Burkina or Mali.

Drivers generally come to the port five times a year or every two months and wait two weeks to a month while the goods are processed and authorized for removal from the port.

Table 6: Truck Drivers in Ghana: Remittance Couriers for the Poor

	Country of origin	Carries money?	From	To	Who	Amount	Frequency
Driver 1	Niger	Yes	Ghana, Mali, Burkina Faso, Côte d'Ivoiré	Mali, Burkina Faso, Côte d'Ivoiré	Migrants, traders	CFA 100,000 - 200,000 US$180 – US$361.45	3-4 times a year
Driver 2	Burkina Faso	Yes – personal use only	Burkina Faso	Ghana	Personal		
Driver 3	Niger	Yes, but prefers to send through Western Union or Eco Bank (safer)			Personal		
Driver 4	Burkina Faso	Yes, personal use only. He turns down 10-15 requests annually			Personal		
Driver 5	Burkina Faso	Once only, otherwise sends through Western Union	Burkina Faso	Ghana	Friend	CFA 30,000 US$54.22	Once only
Driver 6	Burkina Faso	Yes, but only for transport owners. Turns down 5 requests on average annually.	Burkina Faso	Ghana	Transport owners		
Driver 7	Burkina Faso	Yes, but stopped carrying for others a year ago. Now, only for personal use.	Burkina Faso	Ghana	Friends, migrants	CFA 100,000 US$180 (personal use: CFA 50,000 – 80,000 US$90.36 - $144.58)	6 times a year

	Country of origin	Carries money?	From	To	Who	Amount	Frequency
Driver 8	Niger	Yes	Niger	Ghana	Friends, migrants, transport owners	CFA 150,000 US$271.10	5-10 times per year
Driver 9	Niger	Yes, for transport owner. Stopped carrying for migrants after being robbed	Niger	Ghana		Will not disclose amount	
Driver 10	Niger	Yes, for migrants and transport owners	Niger	Ghana	Migrants	CFA 150,000 – 200,000 US$271.10 - $361.46	6-8 times per year

ii. Ghana: A Case Study of Regional Integration from Below

Ghana is an important example of the inbound and outbound movement of people within Africa and throughout the rest of the world.[30] But Ghana is also host to many West Africans, including Nigerians and Burkinabes for example. This project included a nationwide survey of 500 West African migrants living in Ghana (see appendix for full survey results and methodology).

The distribution of migrants in Ghana was varied, including West Africans from most ECOWAS member countries. The survey was conducted in three different areas, including Accra and northern Ghana. The majority of respondents were male and predominantly young: 78% were under 40 years of age, earning an annual average income of US$1,400. When asked whether they had sent remittances in the past twelve months, 61% responded affirmatively.

Sending Money Home

Migrant remitters in Ghana send an average of about US$140 each time to their relatives in other West African countries. About 58 percent send less than US$200 and nearly ten percent send over US$800. These migrants send money on an average of three times a year. However, twenty percent send money more than five times a year. Thirty five percent of them have lived in Ghana up to four years, while thirty seven percent have lived in Ghana from five to eight years.

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[30] Orozco, Manuel, Diasporas, Development and Transnational Integration: Ghanaians in the US, UK and Germany. Institute for the Study of International Migration/Inter-American Dialogue. November 21, 2005, study commissioned by the U.S. Agency for International Development (USAID).

The sending of money corresponds to the length of time a migrant spends in the host country. People tend to send greater amounts the longer they spend in the host country. On average, this is the case for West African migrants in Ghana. However, while an increase in the amount sent can be observed, the difference in the amount sent is not as large as the linear relationship may suggest.

Table 7: Migrant's Country of Origin	
	Percent
Togo	17.8
Guinea	5.0
Burkina Faso	14.0
Mali	14.0
Níger	18.8
Nigeria	14.4
Liberia	1.6
Cote d'Ivoire	2.6
Senegal	4.0
Benin	4.6
Gambia	3.2
Total	100.0

Table 8: Sending remittances	
	(%)
Less than $200	58
$200-$400	19
$401-$600	9
$601-$800	3
$801-$1000	1
Over $1000	7
n=305	

The average difference in amount sent between a person who has been in Ghana less than two years and one who has been in Ghana for ten years is US$50. Moreover, the median amount suggests a rather inelastic trend in the sending of remittances, indicating that basic needs may only change if there is a substantive crisis or new demands emerge in the recipient household such as investments in other economic activities outside of typical consumption.

Table 9: Times sending money per year	
	(%)
Once a year	15
Twice a year	29
Three times a year	21
Four times a year	13
Over five times	20
Not Sure	1
Total	100

As in other countries, the main remittance beneficiary is an immediate relative. More importantly, forty-two percent of recipients are the mother or father of the migrant, and twenty-two percent are siblings. This latter group may be caring for another family member of the migrant residing in Ghana. Another characteristic of West African migrants in Ghana that is similar to other migrant groups worldwide is that nearly ninety percent say the money sent is for food purposes, and seventy percent say money is also sent for clothing. Twenty seven percent of those surveyed also selected education as another way they expect remittances to be used by their relatives.

Table 10: Remittance beneficiary	
Husband/wife	15
Mother/father	42
Children	15
Siblings	22
Grandparents	.3
Other relatives	4
Unknown/NR	1
Total	100.0
n=305	

Table 11: Application of remittances	
Food	88
Clothing	70
Education	27
Housing	21
Business	9
General upkeep	2
Other	2
Funeral	1
Medication	1
Savings	1
Unknown/NR	2
n=305	

In terms of the methods employed in sending money to relatives, the results of this survey are consistent with what was found in interviews with migrants in other West African countries. Most of the mechanisms used to send money are informal. Results show that sixty five percent of migrants send money to their relatives through another person. Furthermore, a combined twenty percent send money through a driver or take the cash themselves.

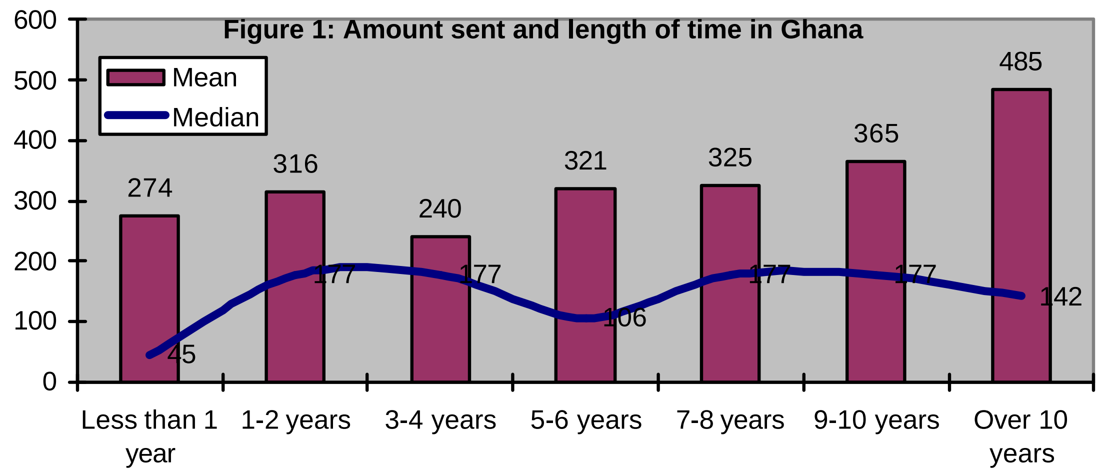


Table 12: Remittance transfer methods	
	(%)
Bank branch	1.3
Money transfer company office	5.6
Internet (online banking/remittance service	.3
Other company	3.0
Use friend or relative or other person	65.2
Send cash via a driver	10.5
Take cash home when I visit	12.5
Travel agency	1.6
Total	100.0
n=305	

Reasons provided for the choice of sending method are straightforward: convenience (70%), recommendation (32%), safety (15%) and reputation (12%). Speed, cost, or reliability do not play as much of a role in the selection of sending method. This finding raises the question as to whether a reliable and low cost transfer mechanism would actually make a difference, provided that the regulatory environment allows for outbound payments.

Keeping in Touch with the Family

Sending money home is one of the ways in which people stay in touch with their families. Visiting, calling, and bringing family home are other ways to maintain links. Many migrants travel to visit their relatives. Among Latin Americans in the United States, for example, three in ten visit the home country once a year. Fifty percent of Ghanaians living in the U.S. or the U.K. visit Ghana at least once a year.[31]

In the case of West Africans in Ghana, twenty five percent traveled to their home country in 2005 and 15% did so in 2004. Almost forty percent had not visited their home country since living in Ghana. Moreover, they typically carry cash home in amounts similar to those they send when not traveling. The table below shows that 38% carry over US$300.

Table 13: Last year traveled to your home country	
	(%)
Have not visited	38
1982-2000	5
2001-2003	16
2004	15
2005	26
Total	100
n=500.	

Table 14: Money taken when traveled to country	
	(%)
Less than $200	35
$200-$300	19
Over $300	38
Unknown/NR	7
Total	100

In addition to keeping in touch by visiting relatives, migrants also contact their families on a regular basis by phone or through letters. In fact, eighty-six percent of West African migrants in Ghana use the phone to stay in touch with their families, and fifteen percent report also sending letters. Twenty-two percent call their relatives at least once a week and only a small percent claim to call very little. One very important finding shows that sixty two percent of West African migrants in Ghana, both senders and non-remittance senders, have a cell phone.

Business andFfinance Issues

Comparing their income and the amount remitted, West African migrants in Ghana earn an average income relative to other Ghanaians. The same observation is made in terms of the kinds of economic activities in which migrants are engaged. The large majority of West

[31] Orozco, Manuel, Diasporas, Development and Transnational Integration: Ghanaians in the US, UK and Germany.

African migrants in Ghana are traders who are likely in the informal economy, particularly because 85% of the country's economy is categorized as informal.

Contrary to all Ghanaians, however, West African migrants have greater access to – or use of – financial institutions: 29% versus 5% of native-born Ghanaians.[32] Moreover, sixteen percent of West African migrants in Ghana have an account in their home country, and sixty percent maintain a small family or commercial business. They are thus more economically active than the overall Ghanaian population, but less so than Ghanaians who are remittance recipients (of whom sixty percent have bank accounts).[33]

Table 15: Ghanaians Average Annual Household and Per capita Incomes (1999)	
Mean Annual Household Income	Mean Annual Per Capita Income
$947	$220
Source: Ghana Living Standard Survey (GLSS4) in Global Policy Network	

Correlates of Remittances and Informal Networks

One of the questions in the literature on remittance transfers refers to the determinant factors that explain why people decide to send money to relatives. Arguments are made in terms of altruisms, self-interest, loan repayment, or co-insurance. An altruistic approach is one that is assumed to diminish over time, as ties in the host country grow stronger, whereas a self-interested behavior is manifested when migrants seek to invest in the home country and diversify their interests. Here, we look at demographics, income, relationships at home, and financial interests as variables that might influence the decision to remit.

We ran a LOGIT regression with remitting, or not, as the dependent variable set against other variables in the survey such as visits to the home country, extent of contact with family, savings in the home and host country, and belonging to a hometown association. Demographic variables were also run such as age, education, household size in the home and host countries, and income.

The results are presented in the table below and demonstrate that both altruism and self-interest prevail and are not mutually exclusive. Contact with home country relatives and the size of the household in the home country influence the decision to remit. Furthermore, having a savings account in the home country and personal income in Ghana are also statistically significant and correlate with the decision to remit. Other variables, such as gender or broader contact with the nation, are less relevant.

32 "Shocking revelation: Only 5% of Ghanaians have bank accounts" *The Ghanaian Chronicle*. August 30, 2004.

33 Bruks 2005

Table 16: Determinants of Remitting by West African Migrants in Ghana						
	B	S.E.	Wald	df	Sig.	Exp(B)
Last time visited home country	.000	.000	.643	1	.422	1.000
Extent of contact at home	*-.011*	*.004*	*6.662*	*1*	*.010*	*.989*
Savings account in HC	*-.006*	*.002*	*5.879*	*1*	*.015*	*.994*
Owning a bank account in host country	.100	.264	.145	1	.704	1.106
Belongs to an HTA	-.008	.007	1.290	1	.256	.992
Age	*.412*	*.150*	*7.548*	*1*	*.006*	*1.510*
Gender	-.122	.301	.163	1	.686	.886
Education	*.008*	*.003*	*4.825*	*1*	*.028*	*1.008*
Income	*.249*	*.109*	*5.216*	*1*	*.022*	*1.283*
Household size in Ghana	-.019	.042	.200	1	.655	.981
Household size in home country	*-.020*	*.007*	*7.664*	*1*	*.006*	*.980*
Constant	-.723	.870	.691	1	.406	.485

Another important observation is that among those who decide to remit, income matters significantly, the more earned the more sent. This is corroborated by the age of the individual; the older the person, the more likely they are to remit up to the point at which the person reaches the third age bracket and the amount sent declines.

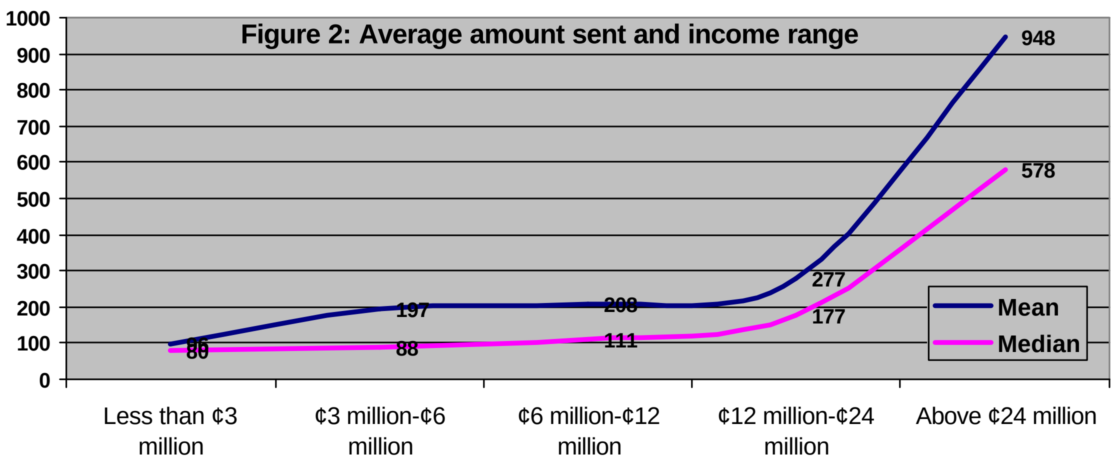
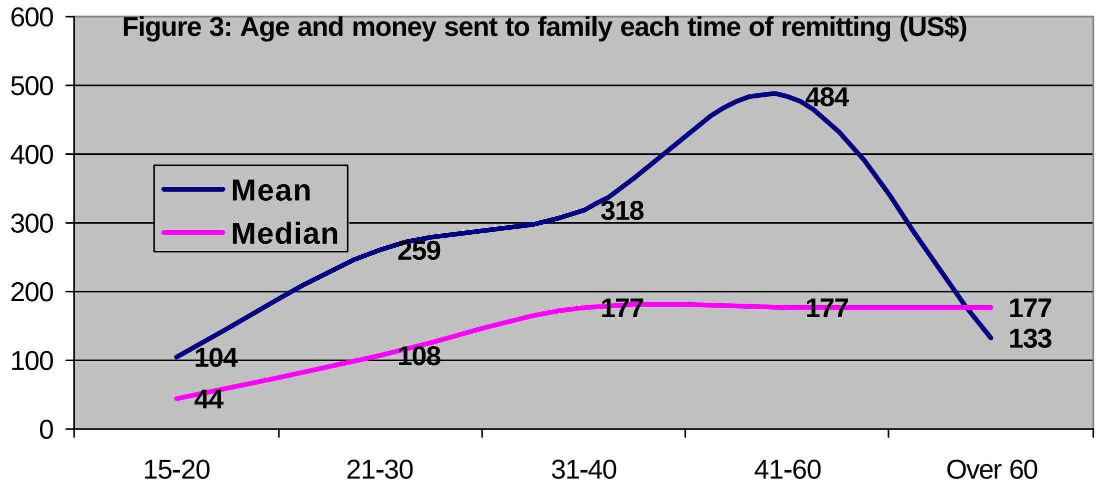


Figure 2: Average amount sent and income range



iii. Estimating Remittance Flows

In estimating how many West Africans are living and working in other West African countries, it appears their number may amount to 10% of the total population of the country in which they are residing. Academics and other experts concurred that West Africa is characterized by a significant number of migrants from within the region residing in the different countries. Unfortunately, the statistics are unreliable. The head of Nigeria's immigration office, for example, plainly acknowledged they keep no records on West Africans, even though other West African nationals are required to register and obtain identification. ECOWAS headquarters offer official statistics that provide a glimpse of a much larger population. Interviews with consular and embassy officials of ECOWAS member states in each country studied cited figures that were generally higher than officially recognized numbers. For example, the Burkina Faso consular office in Ghana estimates that there are some 500,000 Burkinabes in Ghana. The Nigerian embassy in Mali estimates the number of Nigerians in Mali to be 50,000. Combining all population groups, the result may be that one in ten of the total population in each country is of another West African nationality.

Table 17: Foreign and ECOWAS countries visitors (,000) Source: ECOWAS Statistics Office, 2005

	1999	2000	2001	2002	1999	2000	2001	2002
Benin	612.0	650.0	…	…	…	…	…	…
Burkina Faso	150.5	165.3	184.3	…	33.0	36.5	38.0	…
Cape Verde	…	145.1	162.1	152.0	…	…	…	…
Côte D'Ivoiré	311.4	279.4	273.0	259.1	119.7	4.3	78.2	…
Gambia	96.1	78.7	75.2	…	…	138.0	…	…
Ghana	372.0	399.0	441.0	482.6	111.0	119.0	132.0	144.1
Guinee	27.3	32.6	37.7	…	8.6	22.6	…	…
Mali	86.8	92.0	94.3	95.9	6.6	6.7	6.9	7.1
Níger	77.3	89.5	93.7	191.5	11.7	13.5	14.1	15.2
Nigeria	…	…	…	…	1005.0	1053.0	1237.0	1301.0
Senegal	421.1	442.7	435.6	488.2	88.5	96.8	77.6	86.0
Sierra Leone	10.6	15.7	24.1	…	…	4.8	11.4	…
Togo	93.6	72.7	74.1	…	30.5	18.2	25.0	…

Table 18: Population of resident foreigners (,000)								
	Total foreign population				Ecowas Residents			
	2000	2001	2002	2003	1999	2001	2002	2003
Côte D'Ivoiré	4281	4418	4557	4680	4020	4557	4420	4559
Gambia	233	252	252		208	244	244	…
Ghana	740	760	786	…	422	448	463	…
Guinee	295	304	314	304	378	295	304	295
Liberia	1,245	485	1,045	545	106	125	194	140
Níger	196	202	209	215	122	130	134	139
Nigeria	467	481	495	697	288	305	314	477
Sierra Leone	136	136			127	127		

Source: ECOWAS Statistics Office, 2005

When estimating the outflow of remittances to the region, interviews with more than fifty West African migrants showed that migrants annually remit US$300 on average. The median amount remitted, however, is US$150 dollars, which is about one half of the region's per capita GDP.

The estimated number of West Africans was corroborated by interviews with government officials, tourism statistics, West African embassies in each country, and academic research.[34] Although no figure exists on those who send money, we use the 60% reported from our survey of West Africans in Ghana as a baseline for all migrants (note however that surveys worldwide suggest that between 50 and 90 percent of migrants send money home).[35]

The table below offers estimated remittance flows within select West African countries, based on the survey and interviews conducted with migrants.

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34 Adepoju, Aderanti , Migration in West Africa, in *Development* 2003, Society for International Development; "Fostering Free Movement of Persons in West Africa: Achievements, Constraints, and Prospects for Intraregional Migration" in *International Migration* Vol. 40 (2) 2002. "Patterns of Migration in West Africa" unpublished book chapter edited by University of Ghana, 2005.

35 Orozco, Manuel, *Remittances: global opportunities for international person-to-person money transfers*, London, VRL Publishers, 2005.

Table 19: Estimates of Intraregional Remittance Flows

	Ghana	Nigeria	Senegal	Mali
Estimated Migrants (10-15% of pop.)	2 million (10% of pop.) predominantly Burkinabes, Nigerians	5 million (half of which is WA), predominantly Ghanaians, Togolese	2 million predominantly Malians, and other French speaking West Africans.	1 million (5% of population), transient groups, including 50,000 Nigerians
Estimated average / median annual amount (US$)	400	400 / 150	*200* / 100	200 / *100*
Total amount sent by 60% of adult migrants (using median sent)	$408,000,000*	$510,000,000	$204,000,000	$51,000,000

Note: The formula employed consists of deducting 15% for under-aged population, and multiplied by 60% and by the annual amount sent. * We estimate remittances for two and three million

3. The Institutional and Regulatory Context of Regional Integration and National Laws

In order to understand the state of cross border payments on trade settlements and remittance transfers, it is critical to assess the structure of West African regional integration as well as the regulatory environment governing payments. Trade and mobility in West Africa have been constant features in this region and are components of its de facto integration. Within that context, the formal institutional structure of regional integration, as well as the position of West Africa in the global economy, have been pivotal in defining the extent of cross border payments. This section reviews West African regional integration within the context of the Economic Community of West African States (ECOWAS). In this section we also analyze the prevailing regulatory environment governing payments, particularly outbound foreign exchange settlements.

a. The State of ECOWAS and Intervening Dynamics

The regional integration system in West Africa, ECOWAS, is one of the first efforts of its kind and has been regarded by many as an important African integration partnership.[36] ECOWAS was created less than a decade after independence was achieved by many West African states. Today, the system faces many challenges related to structural constraints affecting the continent, as well as by difficulties related to achieving consensus on

[36] Adedeji, Adebayo, *History and Prospects for Regional Integration in Africa*, paper presented at The Third Meeting of the African Development Forum, Addis Ababa, 5 March 2002.

institutional settings.[37] Nonetheless, a significant level of integration has been achieved over the past thirty years. For example, Aryeetey illustrates a trajectory tracing the various efforts undertaken since 1975 to achieve a greater level of regional integration within the context of ECOWAS.[38]

Common agendas and, at times, policy coordination exist covering a range of issues, such as transportation, postal systems, trade and monetary policy. The institution continues to encourage an environment of cooperation along many levels. Monetary and foreign exchange policy has been an area of critical concern for ECOWAS and the countries in the region, and establishing a common currency has been a constant issue. In conjunction with the creation of ECOWAS in 1975, a West African Clearing House (WACH) was established as a payment mechanism attempting to facilitate intra-regional trade. In 1986, WACH was transformed into the West African Monetary Agency (WAMA).

According to Magbagbeola, the WAMA mandated that governments establish a harmonized monetary system vis-à-vis the observance of a set of macroeconomic convergence criteria (which included budget deficit controls, international reserves, and low inflation rates).[39] The agency, however, was not able to achieve much success because none of the countries met the criteria required to participate in the clearinghouse. Contributing to WAMA's failure, was the creation of a monetary zone within the French speaking countries named the Union Economique et Monétaire Ouest Africaine (UEMOA), and subsequently, the creation of another zone called the West African Monetary Zone (WAMZ).

The UEMOA, established in 1994, has remained active and is currently the sub-regional mechanism among ECOWAS members that uses a single currency and has been successful so far. The WAMZ was proposed in 1999 by the governments of Ghana, Gambia, Guinea, Liberia and Sierra Leone. According to Ukpong, these countries hoped to ensure "the setting up of a common central bank; and the introduction of a single common currency in the zone in 2003, for eventual merger with the UEMOA zone in 2004 under the ECOWAS integration programme."[40] This initiative would eventually translate, by 2005, into the creation of the West African Monetary Union (WAMU). However, by early 2006 these efforts remained significantly delayed. The most important accomplishment so far has been that all member countries honor Ecobank's[41] traveler's checks as a regional monetary convertible "currency".

All countries continue to discuss – and hope to eventually achieve – a monetary union. However, political will is weak as each country feels their currency will be worse off as a

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37 For a critical perspective of ECOWAS see Lavergne, Réal, *Regional Integration and Cooperation in West Africa*, International Development Research Centre (IDRC), 1997.

38 Aryeetey, Ernest, *Regional Integration in West Africa*. Working Paper n. 170. OECD Development Centre, 2001.

39 Magbagbeola, Nelson, The Quest for a West African Monetary Union: Implementation Issues, Progress and Prospects. National Centre for Economic Management and Administration, Ibadan, Nigeria. ND

40 Ukpong G. E., Second Monetary Zone in ECOWAS: Issues, Progress and Prospects, ND.

41 ECOBANK is a private sector banking group based in 13 countries of West and Central Africa, namely: Benin, Burkina Faso, Cameroon, Cape Verde, Côte d'Ivoire, Ghana, Guinea, Liberia, Mali, Niger, Nigeria, Senegal and Togo where over 109 branches and offices have been created in the last fifteen years. Most recently, Internet banking has been added to the portfolio of services. See: http://www.ecobank.com/english/index_en.aspx

result. There is a perception in some countries that the Nigerian Naira may undermine other currencies. All banks interviewed expressed doubt concerning the implementation of a reliable monetary union. Ecobank suggested that their traveler's checks be used as a temporary mechanism for a single acceptable convertible currency.

In addition to ECOWAS' institutional processes, the West Africa region faces important structural challenges that frame the quality of its integration. In particular, as a regional bloc West Africa exhibits the lowest formal intraregional trade levels as compared to other trade blocs (see table below); data is not being captured as a result of informal transactions that are unrecorded by the governments. Moreover, the region is the most dependent on trade with the industrialized world, and has one of the highest rates of informality. If one adds the estimated $2bn in informal flows, intraregional trade is higher. This situation points out that trade and flows occur despite ECOWAS and trading policy structures, not because of them.

These dynamics stem largely from the fact that this is one of the poorest regions in the world where inequality (domestic and international) and resource scarcity prevail, particularly in land-locked countries like Mali. Economic dependence and restricted trade diversity combined with high levels of informality severely handicap the infrastructure of intraregional relations. The argument that there is low intra-regional trade due to similar product offerings has been made for other low trading regions such as South Asia. However, gravity modeling and practical experience has suggested that even geographically similar regions trade heavily if borders are open, particularly through infra-firm trade and product spectrum trade.

Table 20: Comparative Regional Bloc Poverty, Trade, Dependency and Informality Data

Regional Bloc	Regional per capita GDP[a]	Trade – regional trade % of total exports [b]	Dependency - % trade with industrialized world [b]	Informality – size of informal sector [c]	Total Exports by trade bloc expressed as a percentage of world exports 1998 [d]	Pop. (millions)
NAFTA	$21,215	Mexico 90% USA 36%; Can. Canada 88%; average 71%	US 55.6%; Canada 94.7%; average 75%	12.9% average (Mexico 30%)	18.4%	424
EU	$20,181	60% **e**	78%	8.8% 2000	35.5%	450
ASEAN **f**	$6,276	23.3.5%	61% 2001	66.5%	6.1%	512
MERCOSUR	$4,531	11.5% **g**	73%	35.9% average	1.5%	220
CACM	$1,934	28% **h**	75%	56.3% average	0.3%	35
ECOWAS [i]	*$367*	*7%*	*80%*	*91.5%*	*0.4%*	*251*

NOTE: Data for most of these groups refer to 2000, or 2001.

(a) World Bank, *World Bank Development Indicator data*, Washington, DC: World Bank, 2005; an average estimate of the countries in the bloc;
(b) IMF, *Direction of Trade Statistics*, Washington, DC: IMF, 2001.
(c) ILO, *Compendium of Official Statistics on Employment in the Informal Sector*, ILO, Bureau of Statistics: Geneva 2002.
(d) World Development Report 2000, World Bank;
(e) Data from *Economist Intelligence Unit* on the EU
(f) ASEAN, *Southeast Asia: A Free Trade Area*, Jakarta, ASEAN Secretariat, 2002. WTO *Merchandise exports of MERCOSUR countries by region, 1990-02.* Geneva, 2004.
(g) SIECA, *Centroamérica: Principales Socios Comerciales año 2004* Guatemala: SIECA, 2005;
(h) Trade estimates based on an average figures for Ghana, Nigeria, Mali, Sierra Leone, Burkina Faso, and Senegal (this country's trade with industrial countries is only 45%, other ECOWAS members average 80%; its trade with ECOWAS members is 35% against an average 5% of other members).

As confirmed by the fieldwork, although intraregional payments are taking place, they operate within a framework of domestic and regional constraints caused by weak institutional and structural processes.

Table 21: Selected Economic Indicators of ECOWAS Countries 2003

Country Name	GDP (US$) Million	Per capita GDP (US$)	Aid (% of GNI)	FDI (% of GDP)	GDP growth	Gross domestic savings (% of GDP)	Exports (% of GDP)	Imports (% of GDP)	Industry, (% of GDP)	Agr., (% of GDP)
Cape Verde	797	1290	18	2	5	-16	32	68	20	7
Côte d'Ivoiré	13,733	597	2	1	-4	23	47	34	19	26
Senegal	6,496,	485	7	1	6	8	28	40	21	17
Guinea	3,630,	431	7	2	1	7	22	25	36	25
Benin	3,475,	392	9	1	5	5	14	27	14	36
Mauritania	1,093,	372	21	20	5	3	34	75	30	19
Nigeria	58,389	357	1	2	11	32	50	41	49	26
Gambia, The	395	324	16	15	7	15	41	45	15	30
Togo	1,758	292	3	1	3	5	34	47	22	41
Ghana	7,624	276	12	2	5	11	40	52	25	36
Mali	4,325	258	13	3	6	19	26	31	26	38
Burkina Faso	4,181	253	11	0	6	4	9	23	19	31
Niger	2,731	178	17	1	5	5	16	25	17	40
Sierra Leone	793	141	39	0	7	-12	22	49	31	53
Guinea-Bissau	238	135	64	1	1	-1	30	44	13	69
Liberia	442	123	28	0	-30	..	..	..	..	..

Source: World Bank, World Development Indicators 2005. Washington, DC: 2005.

b. Regulatory Environments on Cross Border Payments and Foreign Currency[42]

The choices available to West African traders and migrants who at present are evaluating their options to send money across the border, whether to another West African country or to any other international destination, depends as much on the structure of the local economy as on the prevailing regulatory environment governing payments. For example, there is a high level of intraregional economic interaction in West Africa and much of it is characterized by informal transactions outside of the banking system. On average, only 5% of the population in West Africa has a bank account and therefore a large segment of the population relies little on banks to conduct money transfers but rather relies more heavily on the informal channels. The high prevalence of informality in the economy is related, in part, to the prevailing regulatory environment governing banking and foreign currency controls.

At present in the ECOWAS region, there are 8 different monetary policies and currencies in operation, some of which are not easily convertible between each other. In order to address

[42] This section is only a brief review of regulations and comments received from interviews conducted in the field. Future work could include more exhaustive legal review of decrees, guidelines, case law and law journals and prepared in partnership with lawyers licensed in West African countries.

this situation, ECOWAS has attempted various forms of regional payment integration with the ultimate aim of creating a common currency in all 15 countries. The early attempts failed and led the to creation, in 1994, of a common currency, the CFA F[43], in the WAEMU zone among the 8 Francophone countries. For the most part, monetary policy in this zone is developed by the independent Central Bank of West African States (BCEAO) for all eight West African member states[44]. The remaining countries (6 Anglophone[45] and 1 Luciphone) each have their own unique currency, such as the Cedi in Ghana, and the Naira in Nigeria, the Escudos in Cape Verde, and a national systems of monetary policy with little regional coordination; however, these countries have agreed to work independently towards the adoption of the fiscal and policy requirements in order to create the West African Monetary Zone (WAMZ). Through West Africa Monetary Institute (WAMI) these countries have agreed to work towards harmonization of laws governing financial institutions in the member countries, design of an exchange rate mechanism, design of a foreign exchange reserve management system; design of a payment system; design of and technical preparation for the introduction of a common currency; and the establishment of a common central bank.[46] They are expected to introduce a common currency, the ECO, on December 1, 2009. The ultimate goal is to unite the WAEMU and the WAMZ to form a West African Monetary Zone in all of ECOWAS.

On a national level, the principal obstacle to using formal systems is the inconvertibility of the Anglophone currencies to the Francophone currencies, which leads to multiple conversions for traders, and remittance senders. For instance, if a trader in Nigeria wishes to purchase CFA F to settle a transaction in a WAEMU country he/she must first convert the Naira to Dollars, Pound Sterling or Euros and then either (1) buy the CFA F on the black market or (2) travel with the Dollars, Pounds or Euros to the Francophone country to purchase CFA F to settle the purchase. Some traders do profit from this but for most it is a cost of doing business and limits profits. At each step in the formal economy, a fee and a commission is paid. In some of the Francophone countries it may even be taxed.

In the years following independence, the former British colonies adopted polices whereby their newly emerging currencies were backed with foreign exchange. As a result of fears of capital flight, the Central Banks of Nigeria and Ghana, two of the largest economies in West Africa, imposed strict limitations on the exports of foreign capital (Ghana only allows the exportation of the equivalent of c5,000 (US$0.54) and Nigeria only allows N1,000 (US$7.74). These countries have prohibited outbound transactions of local currency unless channeled through banks and for explicitly stipulated purposes. Even outbound transfers through money transfer companies such as Western Union or MoneyGram are completely prohibited, nevertheless cash leaves the country.

Ghana is in the process of modernizing its currency policy and may lift entirely the restriction that prohibits exports of banknotes. At present, Nigeria does not have a draft bill

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[43] Pegged to the Euro.

[44] Benin, Burkina Faso, Guinea Bissau, Côte d'Ivoire, Mali, Niger, Senegal and Togo

[45] The Gambia, Ghana, Nigeria and Sierra Leone and the Francophone state of Guinea. Liberia is also expected to join the WAMZ.

[46] Ojo, Michael. Regional Currency Areas and Use of Foreign Currencies: The Experience of West Africa, Bank for International Settlements, Monetary and Economic Department. BIS Papers No. 17. May, 2003.

that will liberalize the currency regime but the Central Bank has demonstrated an interest in improving payment systems for Nigerian businesses and has held conferences to discuss possibilities as recent as the last quarter of 2005.

While the Francophone countries may freely circulate CFA F in the WAEMU[47] region up to CFA F300,000 (US$542) without justification, the banknotes may not be exported to other ECOWAS countries. In practice this means that outbound transfers must be completed through a bank with supporting documentation, but since only approximately 5% of the West African population has a bank account, most of this is done in the black market. In WAEMU, outbound payments are allowed through money transfer companies but are limited to CFA F1,000,000 (US$1,807) per person, per day, per transaction in Senegal and CFA F3,000,000 (US$5,422) per person, per transaction, per day in Mali. In a region that is highly mobile, cash based and where traders regularly settle payments that average US$3,000, these restrictions have the effect of driving transactions underground and increases informality in the economy.

i. Banking Acts

In West African countries, cross border payments in foreign currencies are regulated by the Banking Acts, the equivalent of the Non-Bank Financial Institutions Acts and the Foreign Exchange Control Acts, which regulate the formal transfer of money services customarily through authorized dealers such as banks and money transfer organizations.

In Ghana, the Banking Act of 2004 regulates the licensing of banks, establishes the requirements for capital, reserves and liquidity, ownership and control, restrictions on lending and investments, accounts and audits and grants powers of supervision and control. In accordance with Section 11, banks are authorized to carry on any business including

(e) money transmission services,

(f) issuing and administering means of payment including credit cards, travelers checks and bankers' drafts and

(h) trading for own account or for account of customers.

The Financial Institutions (Non-Banking) Law of 1993 grants licences, *inter alia*, to savings and loans companies, finance companies and credit unions. The Act primarily focuses on licensing and capitalization requirements and is silent on the ability of non-bank financial institutions to conduct money transfers. Since, a financial institution is defined as taking deposits, financing of activities through loans or advances, leasing, letting or delivering of goods to a hirer under a hire purchase agreement, *inter alia*, in the absence of an explicit description of the powers granted to non-bank financial institutions, it could be argued that the list is indicative and does not, *prima facie*, preclude non-bank financial institutions from engaging in cross border payments. Notwithstanding the above, most individuals interviewed were of the belief that outbound transfers were only permissible through Banks and then only under limited circumstances, such as when accompanied by the appropriate documentation.

In Nigeria, the Banks and Other Financial Institutions Decree of 1991, as amended through 1999, does not explicitly authorize banks to transact cross border money transfers; however,

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[47] Benin, Burkina Faso, Côte d'Ivoiré, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

this authority is implicitly incorporated by reference from the Foreign Exchange Act, which permits "Authorized Dealers" to deal in foreign exchange. The Decree, among other things, regulates banking and other financial institutions by prohibiting the carrying on of such businesses in Nigeria except under license and by a company incorporated in Nigeria. The Central Bank of Nigeria has made provisions regarding the proper supervision of such institutions. Foreign Money transfers are fully regulated by the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, discussed further below, but in practice these licenses are only given to banks. Western Union cannot engage in outbound payments, even though the net settlement would go through the banking system.

Senegal and Mali, both WAEMU member states, have achieved a deeper degree of integration that includes development of common monetary policy throughout the Union, such as the Banking Law of 1990 which was developed through the regional mechanism, is applicable throughout the Union and is incorporated into domestic legislation of each State. The Banking Law provides for an exact definition of banks and financial institutions, and of the credit and investment activities conducted by the latter. It specifies the conditions of entry and exercise of banking functions profession, and determines the obligations, which must be met by banks and financial institutions in the execution of their operations. The Banking Law defines the scope of the control exerted by the Central Bank and the Banking Commission, and spells out the rules governing the Monetary Union and the sanctions applicable in cases where these rules are not respected.

In order to enable all banks and financial institutions of the Union to have access to the banking market of each member State, in optimal competitive conditions, the Council of Ministers of the Union decided, at its meeting held on 3rd July 1997, to adopt the principle of unique approval. Thus, as from 1st January 1999, any bank or financial institution duly authorized by a State of the Union, may carry out a banking or financial activity in the other States of the Union, and provide services of the same nature in any other area in the Union, without having to request new authorizations.

Even though WAEMU countries that share the same reserves and can carry out cross border payments within CFA Franc countries, outside the sub-region, members payments are more complex and other financial intermediaries such as mirco-finance institutions and credit unions are still prohibited from making outbound financial transfers.

ii. Foreign Exchange Acts

The use of currency in Ghana is regulated by the Exchange Control Act of 1961 (Act 71), as amended in 1973, 1977, and 1986. Generally, the Act regulates gold, currency, payments, securities and debts, and the import, export, transfer and settlement of property. Section 1 of the Act governs the purchase or borrowing of currency by persons residing in Ghana by only authorized dealers, which are either banks or other bodies, as authorized by the Ministry of Finance. The regulatory environment is extraordinarily restrictive, for example in 1986, the Exchange Control Act was amended to prohibit persons residing in Ghana from receiving payment in any currency, for services rendered, sale of goods or property, or for rental of property. Furthermore, Section 1B, prohibits any person resident in Ghana from buying foreign currency from visitors to Ghana. Section 6 prohibits residents of Ghana from making payments outside of Ghana to persons resident in Ghana. Section 7 prohibits payments outside Ghana for the acquisition of property located outside Ghana unless otherwise prescribed. This clause is sweeping and would seem to prohibit even payment of purchase made over the internet. Section 8 prohibits the importation of currency notes as specified in the regulations (currently c5,000 (US$0.54). Section 9 prohibits the export of

(a) a currency note

(iv) a bill of exchange or a promissory note expressed in terms of an external currency and not issued by an authorized dealer or with the approval of the Bank of Ghana

(v) prohibits exports of an external currency draft not issued by an authorized dealer or with the consent of the Bank of Ghana.

Section 9.2 restricts the export of further articles, if carried on the person of a traveler or in his baggage. In Section 10, export of goods is prohibited unless (1) payment has been made or is to be made within 6 months of export (2) the amount of payment is for the purchase of goods, and is satisfactory to the Government of Ghana., and (3) deliver to customs officer customs declarations.

In an effort to create an environment attractive to foreign investors, the Bank of Ghana has developed a draft foreign exchange bill and new corresponding regulations that would repeal the Exchange Conrol Act, 1961 (Act 71) and its corresponding ammendments and would take precesence over all other exhisting legislation relating to foreign exchange. The draft bill is and draft regulations propose to *"further liberalizes the exchange and payments system. There is an increased focus on monitoring rather than controlling foreign exchange transactions."* If passed, the new regulations would allow foreign currencies to be brought into Ghana without limit. Furthermore, there is no restriction on the amount of Ghanaian currency a person traveling outside is allowed to take. Travelers may re-import up to 5 million cedis (US$546.) into the country. This bill would be a major step in modernizing the currency policy and could be brought before the Ghanaian parliament in the first half of 2006.

In Nigeria, the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act of 1995 establishes an autonomous Foreign Exchange Market and provides for the monitoring and supervision of the transactions conducted in the market and for matters connected therewith. The Act is organized into several parts, with, the sections regulating the transfer of funds found in Part I, establishing the operation of the Autonomous Foreign Exchange Market and regulating dealings in the Market. Part II regulates the operation of foreign currency domiciliary accounts and Part IV, regulates the export and import of services.

From a policy perspective, Nigeria's thirst for foreign exchange has resulted in a currency policy that encourages inflows of convertible currencies such as the US dollar and restricts the inflows and outflows of the Naira. (Section 14) The threshold for the exportation of the Naira is N5,000. (US$38.) which in effect acts as a ban.

The Central Bank appoints "Authorized Dealers"[48] and buyers of foreign currency through any bank or non-banking corporate organization. (Section 5). This is understood to be commercial and merchant banks, community banks, specialized banks, other financial

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[48] Defined as any bank licensed under the Banks and Other Financial Institutions Act, and such other specialized banks issued a license to deal in foreign exchange.

institutions such as insurance, finance companies and Bureaux de Change, which are licensed by the Ministry of Finance.

In both Ghana and Nigeria, money transfer organizations (MTOs) operate but only under a special arrangement with banks, increasing transaction costs. There is a complete ban on the sending of outbound payments from Nigeria through MTOs. Inbound payments, however, can be received in Naira and in US dollars in certain outlets.

There are no residency restrictions on persons and corporations wishing to open, maintain and operate a domiciliary account designated in any convertible foreign currency with an Authorized Dealer (Section 17). Furthermore, banks may transact banking business in any foreign currency deposited into the bank (Section 18); however, exporters of goods, including petroleum products are required to open and maintain foreign currency domiciliary accounts. (Section 19). The export of goods and services is permissible, but only if payment is to be made by letter of credit or any other internationally acceptable mode for payment (Section 27). This is understood to mean that traders may only settle payments through a bank but only with the correct supporting documentation.

Additionally, The Central Bank is in the process of developing a policy on micro-finance institutions and a national credit guarantee scheme for SME's. This initiative appears to be moving forward. On December 15, 2005, President Obasanjo of Nigeria launched a new Micro Policy Regulatory and Supervisory Framework for Nigeria, which will require State and Local Government to devote at least one percent of their annual budget to micro-credit while the Federal Government would continue to provide enabling legal, macroeconomic and regulatory environment.[49]

In the WAEMU countries, Reglement N. R09/98/CM/UEMOWA Du 20 Décembre 1998 Relatif aux Relations Financières Extérieures des Etats Membres de L'Union Economique et Monétaire Ouest-Afrique (UEMOA) governs foreign exchange policy for all 14 CFA franc countries. Until the introduction of the Euro, the CFA F was guaranteed by the French Treasury, and is now pegged to the Euro, thus generating less of a need for foreign currency reserves as in the Anglophone countries. This distinction seems to contribute to a more open regulatory environment, albeit with some restrictions.

In both Senegal and Mali, the Intermediate Agent Statute grants exclusive authority to banks and financial establishments to conduct cross border payments. However, microfinance institutions may establish a special arrangement with a bank to be able to conduct money transfer operations. In Senegal, the maximum amount that may be sent outside the 14 country CFA F zone is 1,000,000 CFA F (US$1,807) per person, per day, per transaction. In Mali, the maximum is capped at 3,000,000 CFA F (US$5,422) per person, per transaction, per day. Money Transfers sent inside the zone are subject to a 15% tax on charges and money sent outside the CFA F Zone are subject to a 2.5% tax on principal. Transfers are paid in CFA Franc only.

In summary, remittance senders and traders are underserved by banks. The potential to make cross border payments through microfinance institutions may already exist in some

[49] Nigeria First. National Micro Finance Policy Launched. AllAfrica.com. December 16, 2005.

cases such as in the the WAEMU countries and potentially in Ghana under the new bill. It is important to investigate this possibility further. Throughout the region access to banks is limited but membership in credit unions may be higher. In Senegal, the BCEAO estimates that there are approximately 1 million members of credit unions. In contrast, recent research by the IMF and the International Financial Corporation (IFC) has found that "the banking penetration ratio, at one bank branch per 54,000 inhabitants, is relatively high, but formal banking reaches only 5 percent of the population and the coverage varies widely. This reflects that 35 percent of bank branches are in the greater Accra region even though this region represents less than 13 percent of the country's population."[50]

4. Challenges and Constraints for Cross Border Payments

Overall we find two kinds of constraints to cross border payments in West Africa: structural and institutional. Structural constraints refer to the existence of heavily informal and cash based economies in countries that have strong external trade linkages, particularly with developed countries. This structural challenge deals with dualistic economies: export oriented markets and industries are formalized and welcomed by governments and businesses; but domestic and small business centered activities and markets are generally inhibited. Institutional constraints, on the other hand, are found in the presence of a very weak regional integration and monetary system where governments and financial institutions are neglectful of the regional market.

Another challenge identified by some is political instability and civil war. Migrants who used to go to Côte d'Ivoiré are now gravitating to Burkina Faso, Mali and Togo. People from Liberia and Niger are living in Ghana as economic or political refugees.

These two kinds of challenges translate into five different patterns: unawareness and neglect of the impact of cross border payments, disruptive regulatory environment on foreign currency payments and outbound transactions, informality, transaction costs and a weak regional system.

a. Stringent Regulatory Controls

As explained in section 1b cross border payments are bound by regulatory environments in several countries in the region. Unfortunately, those seeking to perform these transactions face substantive hurdles from the regulatory environment. These hurdles are explained in part by two obstacles: (1) inconvertibility of the national currencies within the region and (2) limited number of available choices to send cross border payments, which are legally authorized through banks in all of the ECOWAS countries, covered in this study, but are nevertheless subject to restrictions in terms of amounts and require supporting documentation. Outbound payments through money transfer organizations and microfinance institutions are heavily restricted and in some cases require a special arrangement through banks, which increases the transaction cost for the end user. Various

[50] Thierry Buchs and Johan Mathisen, "Banking Competition and Efficiency in Ghana" January 2003, P. 4. See: http://www.isser.org/Banking%20in%20Ghana.pdf

other obstacles to employing the formal sector include limitations on outbound transfers imposed by the foreign exchange controls and taxation.

Outbound payments in Anglophone countries are completely prohibited unless through a bank and accompanied by the appropriate documentation. In Francophone countries, transfers are unlimited in the CFAF region but are limited by the maximum amount transferred per day outside of the UEMOA region.

Traders and migrants that were interviewed confirmed the losses in profitability experienced as a result of having to convert from one local West African currency to the US Dollar or the Euro before they can convert to the local currency; they cannot convert between CFA and Naira or the Cedi directly unless it is done informally. They must convert twice.

For instance, Nigerian traders regularly make multiple trips between Nigeria and Ghana by car. They must first cross through Benin and Togo, two UEMOA countries, pay customs and duties payable in CFA Francs to simply cross the border with their goods. They must convert Naira's into US dollars to then convert to CFA. Then they must also convert Naira to dollars to convert to Cedi's once in Ghana. The Central Bank of Nigeria recognizing the difficulty of inconvertibility recently held a conference to consider the challenges and prospects for the international convertibility of the Naira. Part of the process leading to convertibility is the shift from a system of Dutch Auction System (DAS) at the retail level to the wholesale level. Shifting to a Wholesale DAS system is one of the conditions imposed by the Paris Club for Nigeria to qualify for debt forgiveness. The shift to the Wholesale DAS system was announced in February, 2006.

Outward flows of local and foreign currency occurs notwithstanding legal restrictions. Additionally, the lack of formal infrastructure has only fed a demand for a black-market in Dollars and Euros that, while illegal in Ghana and Nigeria, is flourishing. Traders and migrants are crossing the border everyday with large sums of money on their persons, irrespective of the laws that limit the export of currency- some view it as the most efficient way to conduct business at present, though they dream of simplified procedures and legislation that is less complex and creates an enabling environment for business and trade in West Africa.

The Central Bank and bank authorities acknowledge that there are people inefficiently carrying out money across the border but argue that is a negligible number. Since government statistics mostly track formal activity in the economy, there is a perception that the occurrence of informal trade and remittances is quite low. Very often this type of trader is part of the informal economy and largely undocumented in terms of business licenses, bank accounts and paying taxes. As demonstrated by this study, the healthy volume deserves attention and governments should modernize the regulatory environment to promote greater choice for traders and migrants. This is relatively easy to do by adopting an amendment that would permit MTO's, MFI's and Credit Unions to obtain a license directly from the Central Bank or any other regulatory authority, without having to work through a middleman.

Essentially only large traders, who are licensed and conducting business in the formal economy, can conduct international trade payments through banks. Even still some protest that the banking system is inefficient and takes too long. In Mali, in particular, individuals wait in the bank lobby several hours to transact business. This is not uncommon throughout the region.

Money transfer companies are eager to enter into the market but are constrained by the regulatory environment dealing with foreign currency as well as money transfers. As discussed earlier, in all eight Francophone countries as well as in Ghana and Nigeria, money transfer companies may not operate independently of an agreement with a bank. Consequently, there exist very few MTOs working in this market, particularly in the francophone countries. In some cases, a microfinance institution has established an agreement with a bank that already had an agreement with a money transfer company. This type of cumbersome structure creates disincentives to enter the market and once in the market, profits will be shared three ways, which potentially means increased costs for the consumer. As will be discussed further, in Mali, the cross border payment is also taxed adding to the cost for the sender. There is a demand for alternative methods to settle accounts and to send money to relatives.

b. Unawareness and Neglect

Despite the significant amount of money that is transferred across borders in the region, there is a lack of awareness and corresponding neglect as to the actual level of regional engagement. However, when people are prompted, they are quick to illustrate that there are important economic exchanges occurring with West African neighbors.

Most bankers throughout the region acknowledged high levels of informality in trading and remitting activities, yet they also expressed difficulties in reaching out to this sector because they simply do not know how. Ecobank representatives explained that although they are currently developing products and services that specifically target informal actors, they admit that reaching this segment has been more challenging than they expected, due in large part to what they refer to as a knowledge gap. A banker in Senegal specifically cited the need for governments to take greater initiatives in terms of facilitating regional integration, mentioning that a good start would be to focus on enhancing commercial relationships between ECOWAS member states by relaxing restrictions on cross border payments and reforming burdensome tax systems. Bankers throughout the region (especially in Nigeria) also explained the difficulties associated with needing to meet certain documentation requirements, and yet such documents are often not made readily available by the issuing government.

Traders and migrants throughout the region almost uniformly agreed that accessing the formal banking system in order to conduct cross border transfers is extremely difficult if not impossible (see section c. below). Furthermore, there is widespread perception among informal actors, despite what the reality might be that formal channels will not be of use to them, and several have never even bothered to try. In many instances, microfinance institutions have stepped in to attempt to satisfy the need for financial services in the informal sector. Nevertheless, they report that among their biggest challenges are current government regulations, which do not seem to correspond with this their reality and reflect a lack of awareness by government officials.

Problematic regulations include MFIs being prohibited from entering into direct agent relationships with money transfer providers, a concern raised by UM-PAMECAS in Senegal and NYESIGISO in Mali. Other problematic restrictions for MFIs include the inability to lend for export/import activities, as expressed by JEMENI in Mali, which serves over 4100 clients, 70% of which are traders. MFIs in Nigeria, like Haggai Community Bank, claim that government regulations neglect their need to enhance their network and open more branches, thus allowing them to provide more accessible financial services to more remote and otherwise informal economic actors.[51] According to C. M. Anyanwu, there were 160 registered MFIs in Nigeria in 2001. In 2003, ten MFIs were serving 405,915 borrowers in Nigeria and for the nine MFIs that gave full data to CBN in 2003, the value of their outstanding loans was US$5 million. However, the outstanding loans were disproportionately distributed as only two MFIs accounted for over 67%of the total funds. For the nine MFIs that provided information regarding saving, there were 439,482 saving clients in 2003, with a saving value of US$1.95 million.[52]

c. Informality and Poverty: Un-Banked Nature of People, Business and Money

As previously described in the first section, a high level of informality characterizes the West African marketplace. According to the ILO, employment in the informal sector stands at 91.5 percent.[53] Moreover, government officials and bankers interviewed for this study estimated that no more than 5 percent of the population in each of the four countries – Ghana, Mali, Nigeria and Senegal – have bank accounts.

As a way to cope with cumbersome and not so transparent procedures, traders and migrants have essentially relied on extensive social networks to facilitate the movement of goods and services, people and money. These informal channels appear to operate "with much greater efficiency, speed, and responsiveness than official trade"[54] but that some regard them as appropriate surrogates to the formal economic system is problematic. As the survey of Ghanaian migrants showed, the use of people to transfer funds rather than established institutions stems in part to their belief that this is a safer and more trustworthy method, and not because it is cheap.[55] In Nigeria, a senior Central Bank official bluntly considered it

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[51] One of the early comprehensive studies of MFIs in West Africa was conducted by Leila Webster and Peter Fidler for the World Bank and published in 1996. See: "*The Informal Sector and Microfinance Institutions in West Africa*". World Bank, 1996. (388 Pages). The authors identified a need for international institutions to assist MFIs to increase their outreach activities while strengthening the links between microfinance institutions and banks. The United Nations Capital Development Fund (UNCDF), for example, has suggested that postal savings institutions could fill an important void in this regard. See:
http://www.uncdf.org/english/microfinance/newsletter/pages/2005_04/news_postal.php

[52] C. M. Anyanwu, *Microfinance Institutions in Nigeria: Policy, Practice and Potentials,* November, 2004.
http://www.g24.org/anyanwu.pdf

[53] ILO, *Compendium of official statistics on employment in the informal sector*, ILO, Bureau of Statistics: Geneva 2002.

[54] Meagher, Kate. "Shifting the imbalance: the impact of structural adjustment on rural-urban population movements in Northern Nigeria." Journal of Asian and African Studies 32 (1-2); June 1997, pp. 81-93

[55] People are generally prepared to pay for a service if the service is deemed good. Our work on remittance transaction costs has consistently shown that reliability, trustworthiness and efficiency are as important as cost.

acceptable for low-income people to make informal financial transfers. Informality in West African societies, however, threatens to hinder rather than foster formal regional integration, as long as its networks have limited value added components. Money transfers are financial payments that are more valuable for everyone when handled by efficient financial institutions.

i. The Banking Industry

Overall, the banking industry – whether national, regional or international banks – has not given traders and migrants much attention. Informality is based on a cash based economy runs parallel to each other, and the perception among most banks is that informal cash based economic actors are not interested in using financial institutions. However most, if not all traders and migrants interviewed, expressed an unmet need to have access to finance.

Inaccessibility to financial intermediation also negatively impacts migrants attempting to remit funds to family members in their country of origin. Migrants explain that they have no other choice but to resort to informal or unlicensed businesses – largely because formal money transfer companies are either too remote (particularly for those living outside the urban centers) or are cost prohibitive. Many migrants rely on drivers or acquaintances to send money to their families, or travel home on their own to assure that their family members receive funds.

In Senegal, a typical small-scale trader travels by road at least once a month with approximately 1.5 million CFA F (US$2,711) to purchase textiles in neighboring countries. She explained that she has no other alternative than to carry the money on her person, and must travel with a group as her only protection against theft. Furthermore, many of her transactions are conducted in Euros, yet she relies on the black-market for any foreign currency conversion. The extent of this Senegalese traders' exposure to the formal financial sector has been limited to small loans obtained through micro-finance institutions. While she has attempted to access commercial credit, she has not been successful, claiming that the banks turn her away because her business is too small. Meanwhile, MFI loans barely alleviate her liquidity constraints and furthermore are not able to provide foreign exchange under current Senegalese regulations.

Like Senegal, the banking industry in Mali is not generally involved in regional trade, particularly among small- to mid-level sized traders responsible for a large portion of cross-border financial flows. If these small- to mid-level sized traders participate at all in the formal financial sector, it is likely in connection to a microfinance institution. NYESIGISO is one such institution, providing average loans of 200,000 CFA F (US$361.50) to clients conducting trade primarily with Burkina Faso, Côte d'Ivoiré, Guinea, Nigeria, Senegal and Togo. Like the Senegalese trader mentioned above, however, many NYESIGISO clients will carry their money, rather than transferring the funds through electronic mechanisms. Recently NYESIGISO began offering money transfers as a sub-agent of Ecobank, an agent of Western Union. NYESIGISO reports that transfers through Western Union are on the

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Prepaid phone card usage by the poor is another example of this group's willingness to pay if the service is reliable.

rise as clients increasingly take advantage of the service, despite an average 10 percent transfer cost: they are making 300 payments a month.

Discouraging to NYESIGISO as a provider of Western Union transfers however, are the low commissions earned as a sub-agent of Ecobank (commissions must be shared by all sub-agents in the Ecobank network) and the burden of having to channel transfers through Ecobank rather than directly. Both Mali and Senegal are subject to the same banking regulations as stipulated by the BCEAO, which prohibit MFIs from engaging in direct partnerships with money-transfer companies.

Interviews with well-established Nigerian businesses in Mali also revealed how access to financial institutions is constrained by neglect or ignorance in the industry. These Nigerian entrepreneurs reported experiencing a range of challenges when dealing with the commercial banking sector, from being rejected outright before having the opportunity to demonstrate the viability of their business (perhaps partly explained by the informal cash-based nature of their particular enterprise), to receiving poor customer service once becoming a client of the bank, difficulty transferring funds, inaccessibility to credit, and so on. The Nigerian association in Mali explained that because of these obstacles, informality in cross-border payments becomes the rule, not by choice but by necessity.

Traders interviewed throughout the region echoed the Nigerian experiences. Two trader associations interviewed in Senegal took it upon themselves to establish their own credit unions as a way to respond to the dearth of financial services vis-à-vis the commercial banking sector. For example, the World Council of Credit Unions[56] reports the existence of 279 such institutions in Senegal service 446,000 members. Combined, Senegalese credit unions report savings of US$ 49 million and loans of US$ 66 million. This sector, in Senegal, represents a penetration rate of 7.9%. The WCCU reports no data for Nigeria or for Mali. However, in the case of Ghana the Council reports the existence of 261 institutions, serving 164,000 members and with a penetration rate of 1.33%.

In Nigeria, commercial banks such as Ecobank indicated that they are expanding their branch network into the local markets to provide greater accessibility to small traders located there. The same is occurring with branch openings in more remote parts of Ghana, Mali and Senegal. Nonetheless, the banks admit to conducting limited outreach to small- or medium-sized enterprises, or to even knowing how to reach out to this type of client. Ecobank marketing representatives in Mali and Senegal discussed the challenges of reaching the informal sector, and cited a general lack of understanding as to what kinds of products and services the banks might offer that would appeal to small-scale traders and migrant remitters.

In Ghana, members of the United Petty Traders Association explained that their business transactions have historically been almost exclusively cash-based. Although they have made attempts, they have not succeeded in obtaining loans from the banks. Similar to the other countries profiled here, businesses are required to manage a bank account for the bank to consider extending credit. In addition to the reasons mentioned above, opening a bank account can be cost-prohibitive for small-scale and even medium-sized traders because of

[56] World Council of Credit Unions Inc. http://www.woccu.org/intl_system/profile.php?ID=SEN

high minimum balance requirements and other fees. MFIs such as ProCredit are playing an increasingly important role in the provision of financial services to individuals and businesses that have not been able to afford traditional commercial banking products and services. Nonetheless, the case of Ghana also highlights a continued lack of awareness on the part of the informal sector to these kinds of financial alternatives, which also points to shortcomings in the type of outreach conducted by MFIs and credit unions. Alternatively, MFIs in Ghana are largely unaware of the market for remittance transfers to West African neighboring countries.

Furthermore, the case of Ghana illustrates that despite having a more robust banking industry than Mali or Senegal, both banks and businesses agree that cross-border payments remain predominantly informal because of the lack of an appropriate regulatory context or financial infrastructure for small and midsized transactions.

ii. Taxes and Documentation

High taxes represent an additional obstacle to increasingly formality. This issue was raised especially among small- and medium-sized entrepreneurs in Mali, where taxes reportedly exceed 40 percent. Tax evasion is rampant according to several bankers and trade associations interviewed in Mali and Senegal. According to the head of a manufacturers association in Nigeria, the fear of being taxed or extorted by corrupt government officials is a powerful incentive for SMEs to remain informal, even among larger and otherwise formalized enterprises that might conduct certain aspects of their business in the informal sector.

An additional obstacle, as indicated by the banks in Nigeria, is that the government requires specific documentation in order to effectuate a cross-border payment (remittances), but fails to provide and/or process the necessary forms. The result is that, in many instances, traders and migrants attempting to utilize formal transfer mechanisms are prevented from doing so because required documents are simply unavailable, forcing them to instead rely on informal channels.

As transporters interviewed in Ghana explained, an efficient and well-implemented tax system is constrained by regulators who focus overwhelmingly on criminal activity, rather than on an enabling environment for domestic economic activities let alone intra-regional commerce. Compliance can be costly, especially for banks that are required to monitor transactions closely. The burden is often transferred to clients through stringent documentation requirements.

d. Transaction Costs Problems

Another major challenge faced by traders and migrants is transaction cost. As things are, it is costly to do business through an inefficient if not primitive payment system. First, traders making cross border activities or drivers have to face custom and police authorities that request 'extra' payment. Second, even in countries where money transfers are allowed, there is limited competition and the cost of sending money is prohibitively expensive. For example the World Bank has compiled extensive data at both the regional and national levels with regards to formal requirements for trading across borders.[57] The following table extrapolates the available data for Ghana, Nigeria, Mali and Senegal. Additionally, the table retains World Bank calculated averages for major regions and the authors of this report have also included data relevant to the United States for comparative purposes. On a regional basis, Sub-Saharan Africa requires the greatest number of steps for both exports and imports of any region. Within this context, Nigeria and Mali fall even further below the averages for the sub region while Ghana and Senegal score far higher.

Table 22: Comparing Formal Requirements for Cross-Border Trading

Region Or Economy	Documents for export (number)	Signatures for export (number)	Time for export (days)	Documents for import (number)	Signatures for import (number)	Time for import (days)
East Asia & Pacific	7.1	7.2	25.8	10.3	9	28.6
Europe & Central Asia	7.7	10.9	31.6	11.7	15	43
Latin Amer & Caribbean	7.5	8	30.3	10.6	11	37
Middle East & North Africa	7.3	14.5	33.6	10.6	21.3	41.9
OECD: High income	5.3	3.2	12.6	6.9	3.3	14
South Asia	8.1	12.1	33.7	12.8	24	46.5
Sub-Saharan Africa	8.5	18.9	48.6	12.8	29.9	60.5
Ghana	6	11	47	13	13	55
Mali	10	33	67	16	60	61
Nigeria	11	39	41	13	71	53
Senegal	6	8	23	10	12	26
United States	6	5	9	5	4	9

i. Bribes

Informality, the low usage of formal banking channels for cross-border transactions, and extension and cumbersome regulations have enabled the practice of bribe-taking by low and mid level officials. A Nigerian car importer explained how bribes create the need to carry cash at all times, otherwise the movement of his product is hampered at various checkpoints, both official and unofficial, where customs agents typically demand payments over and

[57] World Bank Group. The **Doing Business** database provides objective measures of business regulations and their enforcement. The Doing Business indicators are comparable across 155 economies. http://www.doingbusiness.org/ExploreTopics/TradingAcross-borders/

above (or negotiated "special deal") any official taxes and duties. This importer argues that 10% of his expenses include bribes or payoffs to tax authorities. The money is spent to expedite the transportation process from the port or during the drive.

Traders in Ghana, Mali, Nigeria and Senegal complain that strong informal networks provide the means, motive and opportunity for government officials – such as border, custom and policy authorities – to profit from bribes. A representative of the Burkina Road Transport Union interviewed in Ghana explained that there are at least 33 check-points between the sea port of Tema and Ghana's northern border with Burkina Faso. Not only do checkpoints represent a problematic delay to the timely delivery and distribution of merchandise, but each one is also a point at which bribes are extorted from a transporter. Reports were heard of excessive numbers of check-points along major highways throughout the region, representing serious hurdles to the transportation of goods and services, both in terms of the time-delays involved and also the necessity of carrying large amounts of cash to finance the bribes. Some businesses in Ghana estimated that 10% or more of their costs are attributed to under-the-table payments and kickbacks to the government.

The bribery mechanism is also deeply entrenched in the region because it facilitates the smuggling of a significant volume of officially prohibited goods. Smuggled goods include pharmaceuticals, pirated media, automobiles, electronics, machinery, foodstuffs and so on, which are imported from Asia, Europe and the U.S. and then dispersed throughout the region. One banker in Nigeria estimated that smugglers along the Nigeria-Benin corridor number roughly 1200 and transport on average 1.2 million Naira (US$9,292) worth of smuggled goods per vehicle, sometimes up to four times per week.

High profits derived from bribes provide little incentive to government officials to formalize informal networks. Reportedly, even government officials who are reluctant to accept bribes at first eventually learn to rely on this form of income generation as an important way to subsidize their modest official salaries.

ii. Remittance Transfer Transaction Costs

Another problem resulting from challenges in cross border payments is cost. In order for companies or individuals to send money, they must deal with the regulatory licensing issues associated with foreign exchange controls, which rely mostly on bank-to-bank transfers. Even when a bank-to-bank transfer is the chosen mechanism, costs are not low. Bank wires are expensive when people are sending amounts under US$500 ranging to 10% of the amount sent. This amount represents the typical payment a migrant or small trader would make on a regular basis to cover expenses on a trip to buy merchandize.

Another challenge associated with transfer costs was identified in Mali. The Banque Malienne de Solidarte is an agent of MoneyGram. MoneyGram's transaction costs are lower than those of Western Union. However, in addition to the fee structure for sending money, people have to pay two additional taxes: the TAF (tax on financial activities), which is 15% on a transaction (in addition to the fee charge), and a 0.03% tax to the central bank authority, BCEAO. Even receiving money represents a cost because of the commission paid on the exchange rate.

The table below shows the transaction cost of sending money to UEMOA countries from Mali and Senegal. As the table shows, costs range from 8% to 10%. In these two countries there is very little competition within intraregional corridors, not to mention use of formal transfer mechanisms. Most companies claim that the share of intraregional transactions is less than 10% of the total transaction volume, the rest representing inbound flows from Europe or the U.S.

Table 23: Transaction Cost to Send CFAs from Mali and Senegal				
Country & amount sent	Western Union	MoneyGram	Money Express	MoneyTrans
Mali CFA F 250,000 (US$451.84)	19,550 (UEMOA) US$35.33 29,500 CFA F (US$53.32) or approx 12% (Ghana / Nigeria)	22,000 UEMOA US$39.76	Service not available	15,390 CFA F US$27.815 or 6%
Mali CFA F 100,000 US$361.47	14,950 CFA For approx 15% (US$27.00) (Ghana / Nigeria) 10,350 CFA F US$18.70 (UEMOA)	Service not available	Service not available	
Senegal	19,890 (UEMOA) (US$35.95)	15,210 (UEMOA) US$27.50	12,000 (UEMOA) US$21.68	
Source: MTO data provided by the companies.				

One money transfer alternative highlighted by most banks interviewed was Ecobank's wire transfer program, one which charges US$10 per transaction, and another that charges 0.15% of the amount transferred. However, no one interviewed was aware of how it worked and those entrepreneurs who had tried using the bank's network had been unsuccessful.

e. Weak Perceptions of Intraregional Flows and Dynamics

Finally, another challenge to cross border payments is the fragile nature of the West Africa regional integration system. Although it is supposed to promote commercial integration, its payment system leaves much to be desired. Bankers express low trust in regional integration and the ability to establish a regional monetary system, suggesting that these are the major obstacles preventing them from commercially providing alternative transfer products other than typical albeit cumbersome bank wire transfers.

Moreover, country interests prevail over regional concerns. In Nigeria, bankers feel disadvantaged because their currency is generally non-convertible in other parts of West Africa. In Ghana, as well as in other countries, Ecobank officials are eager to expand their operations among lower income entrepreneur and migrants by offering alternative solutions.

However, those interviewed were realistic in expressing that constraints have more to do with regulatory restrictions and dysfunctional regional payments systems.

The presence of UEMOA is perceived as important but also as a constraint to cross border payments. Ghanaians, Nigerians and other non-Francophone countries feel uncertain about the possibility of reaching a unified WAMZ.

The system could potentially work on a regional microfinance strategy targeting the thousands if not millions of traders working in this zone. In practical terms, as a microfinance specialist suggested, small and medium traders are left out in the middle of a financial industry (micro-financial or corporate) that is concerned either with those seeking micro-loans averaging US$400 a year, or corporate loans above US$15,000. Generally, traders are in need of financing between US$1,000 and US$5,000. With the exception of Mali, microfinance institutions are largely unaware of the existing demand for microfinance products from migrant entrepreneurs.

5. Building Incentives to Facilitate Regional Cross Border Payments

There is definitely a market for cross border payments in West Africa, however the main problems identified by this project are the lack of appreciation for these types of payments, restrictions on outbound foreign currency transfers, the largely unbanked and informal nature of traders and migrants, and the lack of financial intermediation. Despite these and other challenges, there are opportunities to improve cross border payments. These opportunities can be short- and medium-term oriented, including high-level policy debates about the economic implications of intraregional trade settlements and remittance transfers, as well as pilot projects that link financial intermediaries with small businesses that explore low cost money transfer methodologies and provide financial education.

Research and interviews confirm the significance of economic activities associated with cross border payments, as well as the presence of forward and backward linkages connecting the informal sector with the so called formal economy.[58] Moreover, enabling realistic alternatives for traders and remitters could have a demonstration effect on development and other broader initiatives in these countries economies.

a. Short Term Options

Concrete options that deal with policy agendas and their implementation can be carried out in the short-term. These are initiatives that can be implemented over a two-year period and which provide the foundation for improving a longer-term strategy.

Increased Awareness of the Informal Economy and Cross-Border Flows

As highlighted in this report, evidence from fieldwork in four countries shows that among government officials and private entities, there is a lack of knowledge, appreciation and awareness of the existence and impact of cross border settlements in West Africa. Although

[58] Arimah, Ben, “Nature and determinants of the linkages between informal and formal sector enterprises in Nigeria” in African Development Bank, 2001.

the movement of people and goods is legally and technically allowed, governments do not keep track of foreign West Africans, nor do businesses cater to this group. Debate over the implications of enhancing mechanisms to enable cross border payments is much needed. Government officials, particularly, need to be engaged and informed about the actual levels occurring and the implications that this should have for policy development. Key targets would be central bank and finance ministry officials, particularly in Nigeria and Ghana.

One method is to establish two working groups on cross border payments and development, one focusing on traders and payment settlements, the other on remittance transfers. The working groups would be comprised of a range of participants covering the public and private sectors (NGOs, businesses), regional bodies and donors. The two immediate objectives of these bodies would be to establish a short-term agenda with concrete goals ultimately aimed at the creation of a larger mechanism for cross border payments. The second objective would consist of exploring short-term solutions in specific corridors where trade and migration flows are known to be present.

Pilot Projects on Financial Intermediation and SMEs

Given the magnitude, nature and need for efficient payment settlements, it is important to set precedent with a successful pilot project. A success can provide motivation and prompt a demonstration effect, boosting confidence among governments and private players. One practical solution with short-term impact and low cost investment is to create an operational strategy aimed at a pilot project on financial intermediation for small traders performing cross border commerce and payments. Two potential pilot projects that meet this objective are found in Ghana and Mali.

In these two countries, there is an immediate and practical demand for financial services by West African migrants and traders. In the case of Ghana, small traders working in Accra (in the Tudu area) who generate sales between US$5,000 and US$10,000 and are organized in a single traders association (the United Petty Traders Association – or UPTA – with more than 300 members) have a demand for microfinance lending. Unfortunately, and like many other similar groups, they lack access to any financial institution. A pilot project can be established to enable these traders to increase their revenues through effective access to MFIs in Ghana.

Ghana's formal and semiformal MFIs reach some 1.5 million clients, members and depositors, of which less than a third have loans. They include 115 licensed rural and community banks (RCBs) with over a million depositors and 150,000 borrowers; 9 licensed savings and loan companies (S&Ls) with more than 160,000 depositors and 10,000 borrowers; and 253 credit unions with over 120,000 members. Some 60,000 borrowing clients are served by 50 microcredit non-government organizations (NGOs), but most of these entities, as well as even smaller community-based organizations, have fewer than 1,000 clients each.

Ghana's multi-tiered regulatory structure evolved through early efforts in the 1970s to extend the outreach of the formal financial system and service the cocoa sector by permitting locally-owned unit Rural Banks and through the 1993 Non-Bank Financial Institutions Act, which was intended to diversify the financial sector. Credit unions were included in the latter, but central bank supervision proved unworkable, and a new Credit

Union law was prepared that envisages dual responsibility of the central bank and the Department of Cooperatives, which registers credit unions.[59]

This strategy consists of assessing the supply and demand side of financial intermediation. In the first place, there are important MFIs in the Accra area that can assess the traders association as a client and for which an evaluation of their credit capacity can be established. Donor support on technical assistance can be implemented to provide financial outreach to the traders, as well as product and marketing design commensurate with the needs of these individuals. Traders on the other hand can benefit from donor support that provides capacity building and trade skills aimed at improving their commercial capacity. The end goal could be to recruit at least 20% of UPTA members into a microfinance institution, thus facilitating their access to credit and potentially enabling them to conduct formal cross border payments. Increasing financial access to this group could spur alternative mechanisms for cross border payments – some of which we discuss below – and could improve local development in the area surrounding the market.[60]

Another possible pilot project is to support cross border payments and financial access for the Committee of Nigerians in Mali. The Committee, founded more than fifty years ago, includes more than one hundred members, most of whom are business entrepreneurs working in the formal economy. Committee members are entrepreneurs and traders with businesses in various West African countries (Burkina Faso, Nigeria, and Togo among others), but face hurdles when conducting cash-to-cash transactions.

The Committee is prepared to engage on specific schemes in order to improve their ability to make cross border payments. One solution is to forge an initiative between the Committee and Ecobank to generate a mechanism facilitating cross border payments by Committee members through the bank, thus not only increasing bank revenues through accounts, but also opening lines of credits for regionally based transactions. Ecobank currently has several regional payment mechanisms that include account-to-account transfers, rapid transfers and traveler's checks. Bringing Committee members into Ecobank or another bank with regional networks such as the Bank of Africa will help expedite payment transfers. However, because Ecobank account users have complained of difficulties in cashing Ecobank checks, it will be important to implement this initiative in three stages, which include testing the various steps, challenges and mechanisms to ensure transfers, recommending the most optimal solution, and disseminating lessons learned and options for expansion with other trading conglomerates.

Financial Education

Providing financial education to banks and migrants is also important. The supply side – that being banks, MFIs, and MTOs – needs substantive education concerning the demand for financial products and outreach strategies. Such education involves demonstrating the economic benefits of identifying the economic and financial preferences of traders and migrants, and serving this sector. Moreover, it is important to promote market research

[59] See for example, World Bank. "*Microfinance Regulation: Lessons from Benin, Ghana and Tanzania*". Findings. Issue 243, October 2004. p. 4.

[60] Owusu, G. & Lund, R. 2004. "Markets and women's trade: exploring their role in district development in Ghana" *Norsk Geografisk Tidsskrift–Norwegian Journal of Geography* Vol. 58, 113–124. Oslo.

schemes that identify the extent to which members have a need for cross border payments. Governments need to educate themselves about this market too. The extent of neglect that exists in relation to this sector corresponds to a lack of awareness.

On the demand side, it is of critical importance to educate migrants and traders about the relationship between finance, employment and economic activities. The level of awareness on the part of many traders is significantly limited or nonexistent, yet somehow they manage on a daily basis to cope with the necessities of survival in an informal context. Their income and structural limitations are not a fundamental impediment to improving their condition through financial literacy and access. Donors can provide assistance to microfinance institutions and other non-profit organizations to implement an outreach program. The main strategy of the outreach should be to educate migrant traders about the various components linking business and finance, the benefits of financial intermediation and cost estimates that integrate business financing. One partner that could provide this work is Women's World Banking, which already has activities in West Africa.

The South African experience with banking unbanked poor and people in the informal sector offers very important lessons and experiences as to what works and what does not.[61] Specifically, partly as a result of government mandates to banks to reach out to black South Africans, the banking industry explored ways to offer low cost banking products, including money transfers. One end product of that was the partnership between MNet and Standard Bank integrating mobile phones and banking. In 2005 they launched *MobileMoney*, a mobile phone banking feature embedded on SIM cards. The account has no monthly service fees and no minimum balances, and transactions are done by SMS, and are free. Person-to-person payments are possible, as are transfers to other bank accounts and bill payments. Customers use Standard Bank branches or ATMs to deposits and cash withdrawals. Another similar example is the issuing Mzansi accounts, debit cards for poor rural communities, where people can withdraw cash and make payments through low cost ATMs.[62]

Critical to this dialogue is demonstrating the purchasing power of traders and migrants, and their demand for transfer services. To this end, market research among select ECOWAS members can be tailored to understand the demand side. While using ATM facilities is not ideal given their very limited presence (there are less than 10 ATMs in Mali and less than 100 in Nigeria, for example), other transfer technologies exist that can enable financial access and money transfers.[63] Examples include mobile phone technology integrating banking features, money transfer operations connected to point of sale devices and retail and finance interfaces, and card based transactions.

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[61] Porteous, David and Ethel Hazelhurst, *Banking on Change: democratizing finance in South Africa, 1994-2004 and beyond*. Cape Town, Double Storey, 2004, a report by Finmark Trust.
[62] Genesis. *Supporting remittances in Southern Africa. Estimating market potential and assessing regulatory obstacles*. Genesis Analytics: Johannesburg, 2005.
[63] There is a vast literature on this subject, see for example, *Stored Value Cards: An Alternative for the Unbanked?* Federal Reserve Bank of New York, July 2004. Also, David Evans and Richard Schmalensee, *Paying with Plastic: The Digital Revolution in Buying and Borrowing* MIT Press, 2005.

Technology and Finance Conference

As will be discussed below, the link between technology and finance intersects directly with development. Technological options are available that can provide critical solutions and help the poor to achieve financial access. It is thus important to encourage a dialogue between financial institutions and technology experts about practical applications for developing countries. Currently, some Nigerian financial institutions and Visa International are engaged in certain payment systems that use card based transfers. A technology fair is an alternative to promoting dialogue as well as a practical understanding of how current technical financial applications can reach the developing world.

There are four ways in which technology and remittances currently intersect. First, there exist money transfers companies that adopt technology intensive business models; second, financial banking and non-banking institutions that adopt flexible technologies that efficiently integrate money transfers with financial resources. Third, technology firms making mobile telephony into multifunctional banking devices. Fourth, money transfer companies with back end technologies that support innovative business models. These ways are not mutually exclusive because many businesses adopt a combination of technology practices.

Front End Technology Intensive Business Models Among MTOs

In the first case an increasing number of companies are adopting technology intensive strategies as the critical component of their business models; distributing stored value or debit cards for money transfers is one key example. Businesses and some analysts argue that card based transfers represent an important step forward towards financial assimilation. The choice of adopting in the near future card-based systems for remittance transfers may become more likely. Four factors may explain this possible shift: increased competition, shifting preferences on the demand side, changing dynamics in the receiving countries, flexible technologies and costs. These factors may be converging in the direction of developing transfer mechanisms that offer flexible, multi-service, and value added components to sending and receiving ends slowly transforming a cash to cash business into one of account to account transfers.

Financial Service and Remittance Technology Integration

A second case is of financial institutions increasingly modernizing their technology systems, software platforms and new hardware equipment in order to meet the demands of ever changing consumer preferences. Some institutions are changing their business strategies by integrating their traditional financial services to money transfers through advance technology systems. For example, on the back end microfinance institutions are reconciling and adapting their banking software with money transfer platform that either are link through an interface or are fully modified to include money transfer modules. In some cases, financial service innovation includes voice over IP for example, whereas in others it includes card based transfer and distribution in the front end of the technology for the consumer.

Mobile Phone and Banking

A third case is the practice in many countries and businesses worldwide where mobile phones are performing as back and front end interface between consumers, banks and retailers in a domestic and international market of sending and receiving money. The functionality of the interface for a financial transfer is done through the technology back end by loading money (from a vendor or a stored value account into the SIM card of the phone and register the amount in an account system integrated to the mobile phone. At the front end, the consumer uses the software interface of the mobile phone to transfer funds through the internet or by sending a SMS.

About Integrated Mobile and Banking Technology
Mobile phones can act as back and front end interface between consumers, banks and retailers in a domestic and international market of sending and receiving money. The functionality of the interface is as follows:

Back end: a financial transfer operation is done by loading money (from a vendor or a stored value account [SVA, typically known as store value card]) into the SIM card (subscriber identity module) of the phone and register the amount in an account system integrated to the mobile phone. The MTO or bank has an agreement with a mobile phone company to operate the transfer. The operation occurs within the institutions and the mobile phone operates through a software platform to interface with the market [the software interface in this case is the menu screen that provides info about incoming and outgoing transactions; or a dialing number "123" to check funds available, or to perform a transactions. Sometimes the phone company directly offers financial transfer operation. The service provider signs up a number of retailers, banks, and other parties to honor the transfer technology by adopting the account system that can register transactions between the client and the store.

Front end: Using the software interface in the mobile phone, the user can transfer funds in several ways: a) by sending a SMS (Short Message Service) to a recipient or retailer (which can also be a stored value account, SVA) to pay by authenticating the transaction with a PIN; or b) by virtually making a transfer provided that it has an access number and an account number. Either way the service provider instantly transfers the money to the beneficiary's account (a merchant or individual). *The mobile phone functions as virtual wallet. Operating costs are varied but generally lower than typical MTO wire transfers.*

Costs
The cost of enabling this interface technology is not large provided that a) an MTO and a mobile phone and banks have capability to host the software platform; b) there is a marketing strategy and investment to sell the product; c) vendors and providers find an acceptable cost effective revenue solution to this product. Developing the platform and integrating the interface in the cell phone may be similar to the development of a payment platform with an added feature. Currently the market for payment system platforms ranges between US$250,000 and US$350,000.

MTO Business Innovation at the Technology's Back End
Like some financial service institutions, such as banks or microfinance institutions, there are an emerging number of MTOs who are adopting middle of the road approaches to technology and innovation. Specifically, with the help of technology devices and platforms MTOs are developing business integration on a range of services that meet the demands of consumers. The business model is one of horizontal growth by expanding products to one client, from remittance transfer, check cashing, short term and long term credits, to back end alliances with financial service institutions on the distribution side. These models focus on financial service integration but rely on technology applications as an open source for expansion and longitudinal deepening. Thus, rather than entering directly on the front end

technology, they build business loyalty first and later encourage consumers to adopt IT based banking products such as card based transfers.

b. Medium Term Options

Promoting policy change on foreign currency controls

Donors can contribute to identifying policy changes on foreign currency controls. First, it is critical to make the case that current policies pose problems for traders/workers and that these problems artificially limit intra regional trade integration which in turn holds back opportunities for the development of economies of scale and therefore put a cap on global trade integration and economic growth. Second, it is important to explore practical alternatives that may increase formal flows without challenging the sovereign right to currency controls. In this latter case, governments can relax currency controls for transfers that are geographically and quantity bound. Outbound flows could be permitted, provided that no more than acceptable limits are set on an annual basis within the ECOWAS member countries. Incentives to banks and MTOs to enable the transfer process would energize this very significant regional market.

Promote Alternative Financial Remittance and Banking Opportunities: 'Ecobank' Models, Card Based Transfers and Cellular Technology

Donors can support activities aimed at implementing low cost money transfer models, including strategies such as regionally based payment systems through Ecobank or bilateral corresponding banking agreements for money transfer payments. Ecobank currently has an operating network for regional bank transfers. However, its activities are mostly restricted to corporate banking. Yet, through money transfer operators such as Western Union or local competitors like Express Funds or Money Express, software platforms could be enabled to offer low cost transmissions tied with other financial services.

In that vein, it is important to consider the link between banking and cellular technology. As the survey of West Africans in Ghana showed, sixty percent of migrants and traders own a cellular phone. Moreover, appropriate cell phone based technologies exist today that offer cell secure, cost effective and convenient money transfers. While poverty and informality feed off of each other in West Africa, the presence of cellular phones may underscore a process of formalization through which account-to-account transfers are made by phone. Small businesses backed by banks or MFIs could be enhanced to sell various products such as phone cards, money cards and text messaging.

Technology is only one component. Technical assistance to identify affordable financial products and then commercialize them will offer important returns once a money transfer scheme led by a financial or a microfinance institution is established. Making operational an effective cross border payment depends on appropriate methodologies that include adequate technologies, tailored financial products, a marketing strategy and market research. Donors can facilitate this process by working in tandem with MFIs, banks, and trader associations.

Once a technology fair engages appropriate stakeholders, a long term strategy can look at implementing a system and region-wide scheme that links technology and finance throughout West Africa.

Data Compilation

A final medium term strategy consists of providing technical assistance to develop a sound statistical and methodological measure of the flows of money that result from trade settlements and remittance transfers. Monitoring these flows will ensure certainty about the extent of these monies, inform policy makers about the implications these flows have, and enable different groups to adequately forecast monetary, trade and foreign exchange policy. Funding preliminary country assessments on people and flows is a first step in this direction.

Streamlining Trade Documentation

The search for solutions to more efficient trade involves enabling an environment whereby private sector entities can easily engage in cross-border transactions and trade. To that effect streamlining the paperwork that goes into the acquisition of a trading license, permits to trade in foreign currency is a critical step. Making this strategy operational would involve identifying the constraints in the trading paperwork (steps and procedures) and estimating methods to reduce the load.

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Appendix—West African Migrants Interviewed and Ghana Survey results

Migrant focus group interviews in West Africa

Ghana	Mali	Nigeria	Senegal	Total
15	11	18	7	51

Interviews with cross border drivers

Type	Ghana	Mali	Nigeria	Senegal	Total
Migrants	8	1	1		10

Survey of migrants in Ghana: sample size 500. In progress, completion date is Dec. 2nd.

Survey Results

How the money is generally remitted? (%)

Method	
Friend or relative	65.2
Personally delivered	12.5
Driver	10.5
Money transfer company	5.6
Other	6.2

n= 305

How was the method chosen?* (%)

Reason	
Convenience	69.5
Recommendation	32.1
Safety	15.1
Speed	1.5
Reliability	5.2
Only way I know	4.6
Other	5.2

n=305

*Based on multiple choice response

To who are remittances generally sent? (%)

Recipient	
Parent	42.0
Siblings	22.0
Spouse	15.4
Children	15.4
Other	5.2

n=305

Average amount sent per remittance (%)

USD	
Less than $200	57.7
$200-$400	18.7
$401-$600	8.5
$601-$800	3.3
$801-$1000	1.3
Over $1000	7.2
Unknown	3.3

n=305

How are remittances used or spent by the recipient?* (%)

Use	
Food	87.5
Clothing	69.2
Education	26.6
Housing	21.0
Business	8.9
Other	7.6

n=305

*Based on multiple choice response

How many times a year to remitters send money? (%)

Per year	
1-2 times	44.0
3-4 times	34.4
5-6 times	10.5
7-8 times	3.6
9 or more	7.5

n=305

How long has the remitter lived in Ghana? (%)

Less than a year	3.3
1-2 Years	10.5
3-4 Years	22.3
5-6 Years	24.6
7-8 Years	13.1
9-10 Years	7.2
More than 10 years	19.0

n=500

How long has the remitter been sending money? (%)

Less than 6 months	4.9
7-12 Months	6.2
1-3 Years	52.1
3-5 Years	30.2
Over 5 years	5.6
Unknown	1.0

n=305

How often does migrant contact family at home? (%)

Frequency	
Two or more times a week	8.8
Once a week	13.4
Once every two weeks	15.0
Once a month	25.4
Very little	27.2
Unknown	10.2

n=500

What methods are used to contact family?* (%)

Method	
Telephone	86
Post	15.1
SMS	5.6
Email	5.6
Other	2.4

n=500
*Based on multiple choice response

When did migrant last visit country of origin? (%)

Year	
2005	25.6
2004	15.0
2003	8.8
2002	4.0
2001	3.6
2000	3.2
Prior to 2000	1.6
Has not visited	38.2

n=500

Amount of money taken to country of origin at last visit (%)

USD	
Less than $200	35.3
$200-$300	19.4
Over $300	37.9
Unknown	7.4

n=309

What kinds of economic activities are maintained in country of origin?* (%)

Activity	
Small business	16.2
Bank account	15.6
Agriculture	7.8
Business loan	3.6
Other	3.2
Unknown	60.6

n=500
*Based on multiple choice response

Remitters with bank accounts in host country (%)

Yes	29.2
No	70.8

n=500

If no bank account, why not?* (%)

Reason	
I don't have enough money	46.3
I don't need a bank account	18.4
I don't have papers for the bank	12.4
I don't speak the language	9.0
The process is very complicated	8.8
Bank fees are very expensive	2.0
Unknown	10.5
Other	4.3

n=354
*Based on multiple choice response

Remitters with cell phones (%)

Yes	62.4
No	37.6

n=500

Remitters who belong to country of origin organizations (%)

Yes	67.4
No	28.8
Unknown	3.8

n=500

Age distribution of remitters (%)

Age	
15-20 Years	4.2
21-30 Years	34.4
31-40 Years	39.6
41-60	20.6
Over 60	1.2

n=500

Gender distribution of remitters (%)

Gender	
Male	84.6
Female	15.4

n=500

Educational distribution of remitters (%)

Education	
College degree	7.4
Some college	7.4
High school	19.8
Primary school	27.6
Some primary school	17.2
Unknown	20.6

n=500

Income distribution of remitters (% ¢)

Income	
Less than ¢3 million	9.0
¢3million - ¢6million	16.6
¢6 million - ¢12 million	19.6
¢12 million - ¢24 million	27.0
Above ¢24 million	11.6
Unknown	16.2

n=500

Country of origin (%)

Country	
Niger	18.8
Togo	17.8
Nigeria	14.4
Burkina Faso	14.0
Mali	14.0
Guinea	5.0
Benin	4.6
Senegal	4.0
Gambia	3.2
Côte d'Ivoiré	2.6
Liberia	1.6

n=500

Occupation of remitters (%)

Occupation	
Trading	52.8
Businessman	11.2
Black marketeering	3.8
Security person	2.8
Driver	2.2
Teacher	2.2
Accountant	2.0
Other	23.0

n=500

Household size in host country (%)

Size	
1 person household	9.6
2 person household	30.2
3 person household	17.0
4 person household	16.4
6-8 person household	17.0
9-11 person household	2.4
12+ person household	2.8

n=500

Household size in country of origin (%)

Size	
1-3 person household	14.6
4-6 person household	46.2
7-9 person household	20.4
10-12 person household	6.6
13-15 person household	3.6
15+ person household	5.6
Unknown	3.0

n=500